Investing In Colored Diamonds

[Editor’s Note: This is a guest post from John at fancydiamonds.net. I am solicited by guest posters 10-20 times a week. Obviously most of them are turned down. John is perhaps the most persistent one I’ve run in to yet this year. This post is the third draft he has sent me. I thought it would be a good launch board for discussing investing in collectibles. My family owns one diamond, which isn’t an investment because we’re not planning on selling it, and doesn’t plan on buying any more. John and I have no financial relationship, but he obviously has a rather significant financial bias toward getting you to buy diamonds from his company.]

Every valuable item on this planet has its own way in which one goes about purchasing it from the right sources. When large sums of money are involved, it is imperative to conduct the necessary research, and find out exactly how to go about buying the item of interest, especially when being utilized as an investment piece. Fancy Colored Diamonds are no different in this respect. It is mandatory for a potential buyer to do his or her homework. This of course involves the what, how, where, why, and when, as well as other equally important questions. Here is some insight regarding what truly goes into buying a Colored Diamond.

Why Buy Colored Diamonds?

The first question must be why one would consider Colored Diamonds as an investment in the first place. The stones are rare and popular among celebrities, but also have shown significant recent appreciation. It is no surprise that 8 of the 11 most expensive diamonds ever sold at auction are natural fancy colors and over 15 price records have been broken on an almost annual basis over the past seven years at
the world’s largest auction house. Still, a common misconception many people seem to have is that Colored Diamonds are always more expensive than colorless diamonds. This is not true. There are certain colors, color intensities, and quality stones that are more affordable than some high quality colorless diamonds. Colored Diamonds provide you with something different than the typical colorless diamond. Many individuals are desperately seeking a valuable stone that is unique. Colored Diamonds most definitely hold this “unique card.” The supply is low, the demand is quite high, and has been rising, resulting in significant price appreciation over the past fifteen years.

**How Do You Buy Colored Diamonds?**

The best way to go about buying a colored diamond is by thoroughly educating yourself. Read specifically about these stones, and learn about what is new and happening in the trade. Find out where they are sold, evaluate their prices, and collect reliable recommendations. Some great sources of unbiased information are [www.pricescope.com](http://www.pricescope.com) and [www.diamonds.pro](http://www.diamonds.pro) [Diamonds.pro is an interesting site. Their page on pricing begins “…diamonds are not at all an investment-worthy commodity, but rather a retail product…”-ed]

Once you are confident that you are somewhat educated in the field, seek out a diamond you would like to buy. Take your time deciding if this diamond is the one for you. Is it the right color? Is it the right size? Does it fit into your budget? If you answered yes to all of these questions you can move forward with your Colored Diamond purchase.

**Where Are Colored Diamonds Purchased and Sold?**

Though Colored Diamonds are diamonds after all, they are in a league of their own and require their own special expertise. In fact, even a graduated gemologist with years of professional experience and a deep understanding of the trade
shouldn’t be trusted for colored diamond advice unless they have specifically worked with them extensively in the past. Therefore, most Colored Diamonds are sold through companies that specialize in these natural stones. Make certain that the establishment you have approached has the necessary documentation and is completely trustworthy. Today more than ever, purchasing a diamond online is a viable option. Only, be sure to first read any online reviews about the company, ask family or friends if they have any experience with diamonds online, and most importantly pick up the phone and speak to them. You want a company you can trust.

Although colored diamonds are utilized by many as an asset class of their own, they should be considered a long-term investment. Use the time while sitting on your investment piece to try and build up connections in the trade. Once your diamond has significantly appreciated, which will usually be seen after a 10 year period, you can begin trying to liquidate your asset. Selling even a rare diamond is not like selling a mutual fund which can be done with the click of a mouse. It will take time, but the return will be appreciated. You can and should approach the business where you purchased your asset from. They usually can either purchase it back on their own or help you locate others that are interested. Auction houses should be considered as well, even for relatively small items. Needless to say, the online world is at our fingertips and should not be ignored. There is social media, eBay, diamond lists, and more where you will find the ability to upload your stone.

When Should Colored Diamonds Be Bought And Sold?

Natural Colored Diamonds are very rare and are hard to come by. Their numbers are rapidly dwindling, so the time to buy, truthfully, is now. Records have shown how much the prices of Colored Diamonds have risen over the past decade, therefore, not only should they be bought before they become even more expensive, but also so that you can benefit from the soaring
prices. One of the greatest aspects of Colored Diamonds as investments is that they appreciate tremendously. With that said, those who expect a quick turnaround will be disappointed. There is a waiting period of between five and ten years so that the appreciation is significant and impressive.

What is the Return of Colored Diamonds?

One of the most important questions one can ask is how much profit will a Colored Diamond provide? This question is hard to answer specifically, especially given the fact that most sales are confidential and the prices are not publicized for all to see. With that said, there are always the Colored Diamonds that are sold at auction. The more publicly known auction results are generally the rarer and more expensive diamonds, and they are priced accordingly. Nevertheless it is clear and easy to see that these stones more often than not exceed the initial estimates and large profits are made and have been increasing in a rather consistent trend.

Also, certain colors appreciate more than others. Leibish Polnauer, the President and founder of Leibish & Co. [the guest poster’s company-ed], one of the largest online fancy colored diamond companies, recommends Natural Yellow Diamonds with a Fancy Intense or Fancy Vivid color intensity, high clarity grade, and carat weight above 2.00 carats or natural pink diamonds with a fancy pink color intensity or higher, with a major focus on diamonds mined from the Argyle mine in Australia.

According to the prices as quoted by Leibish & Co. in 2003, a 0.50-carat Fancy Intense Pink diamond, which is a more commonly traded diamond, was on the market for roughly $30,500 per carat. The same stone was sold at $50,000 per carat five years later in 2008. Today, the approximate market price is at $145,000 per carat. That is an amazing 375% price
appreciation in ten years time.

A 2.00-carat Fancy Intense Yellow diamond with a VS+ clarity grade cost $5,000 per carat in 2003. In 2008 that stone would have gone for $2,900 per carat, and today is priced at $13,500 per carat. That’s a 170% price appreciation over the last decade.

What are Colored Diamonds’ Advantages?

In addition to purchasing one of Nature’s most magnificent and rare wonders, Colored Diamonds offer many advantages:

- Consistent long-term price growth
- Ease of transport and concealment
- Privacy
- International recognition
- Value retention
- Durability
- High Demand
- Tangible Asset

[Editor’s Note: I would add the following as disadvantages:

- Zero Yield – diamonds don’t kick off dividends so return is 100% speculative relying on somebody being willing to pay more than you did
- Illiquid
- Easy to lose or have stolen
- Expensive to insure or store securely
- Difficult to diversify
- Highly taxed on gains (long-term capital gains tax rate on collectibles is 28%)
- Requires expertise to price appropriately
- Significant transaction costs (Auction buyer’s fees can run 10-25% and seller’s commissions can be 0-25%)

If you were paying transaction costs of 10% in each direction, lost 33% of your gains to taxes (don’t forget the state
taxes), paid 1% a year in insurance costs, and the value of your gem doubled in 5 years, you would end up with an annualized return of about 6.9% per year. This chart from PriceScope.com shows that (non-colored) diamond prices have only increased 3-35% in the last 6 years:

Every investment has its risks; therefore Colored Diamonds have a lot going for them since there are many success stories to be seen. Such a high appreciation in a short amount of time is hard to come by, especially for such an extravagant item that can be worn and cherished all the while. Colored Diamonds offer their buyers many advantages, which are discovered more and more as time goes by.

What do you think? Do you invest in collectibles? Do you do it for the “consumption value” or purely as an investment? How have you done? Would you consider investing part of your
portfolio in gems, classic cars, Beanie Babies, or even gold or silver coins? Comment below!