Supplies may last an eternity, but value is fleeting

By Tom Panzenhagen
staff writer

"A diamond is forever," according to the advertising slogan created for DeBeers, the mining conglomerate that controls 85 percent of the world's diamond supply.

In the words of a Southfield diamond broker: "Tradition dictates that a girl get a diamond for an engagement ring. And no one ever sells a diamond — unless the kids are starving."

A Rochester jeweler, asked if he would invest in diamonds, said, "I'd like to buy as many diamonds as I could afford."

But a Troy investment counselor won't tell his clients to buy diamonds. "It's a very controlled market and small investors usually end up getting screwed," he said.

Are diamonds a good investment?

There may be more answers to that question than there are sides to a diamond. And all finished diamonds, no matter the size, have 58 sides.

EDWARD JAY EPSTEIN, in his book "The Rise and Fall of Diamonds," writes that the DeBeers advertising slogan "A diamond is forever" suggests "the value of a diamond never diminishes and that therefore a diamond never need be sold or exchanged.

"This precept, of course, is self-fulfilling: As long as no one attempts to sell his diamonds, they retain their value."

He told a Canandian Broadcasting Corp. correspondent last week that if 5 percent of the world's diamond owners tried to sell their diamonds, the diamond market would collapse, because diamond prices are artificially high, propped up by DeBeers and the mystique that the N.W. Ayer advertising company created for the mining conglomerate.

Epstein wrote, "Control of the world's diamond mines (by DeBeers) was a necessary but not sufficient condition for perpetuating the price of diamonds . . .

"What was necessary was the creation of a mass mentality in which women would perceive diamonds, not as precious stones that could be bought or sold according to economic conditions or fashions, but as an inseparable part of courtship and married life."

Randall Cole, the Southfield diamond broker and vice president of the Charles Kent Reaver Co., called that good advertising.

"DeBEERS is only protecting its future," Cole said of the ads that perpetuate the belief that diamonds are forever.

He added that diamonds can be a good investment if properly managed.

"First of all, you can't buy anything at retail for an investment — the only thing you're investing in is the dealer's retirement," Cole said. "Dealers are not notorious for being straightforward."

The Reaver Co., which does not deal with DeBeers, buys raw diamonds, cuts and finishes them in its own factory, then sells to the public, thereby eliminating the middleman and keeping prices low, Cole said.

Although diamond prices have declined since February 1981, Cole said he would recommend buying diamonds "to fill out an investment portfolio.

"Prices are down now so this may be the time to buy," Cole said. However, he said he could not predict the future of the diamond market.

"I won't even speculate on that," he said. "If I could speculate, if I knew, I'd be rich."

Citing industry figures that show a marked increase in diamond prices over the last 40 years — figures that show diamonds outdistancing the growth rates of stocks and land in that time — Cole said diamonds remain a solid investment.

Because the greatest increase in diamond prices are absorbed by large stones of high quality, Cole said $5,000 is the minimum investment a diamond speculator should consider. "If you spend less, you probably won't come out too much ahead," he said.

But buyers, he said, should look at size, perfection grade, color and cut before purchasing a diamond of any size. "If you're shopping for price, price will tell you nothing (about the quality of the diamond). Quality will tell you price."

Cole said he urges buyers to have diamonds appraised by the Gemological Institute of America (GIA), a non-profit organization that will determine gem quality for prospective buyers.

"In this business they're our god," Cole said. "No one argues with them."

The GIA has offices in New York City, Chicago and Los Angeles.

COLE CONCEDES that DeBeers controls the diamond market.

"Diamond supplies are limited because they (DeBeers) haven't opened up new mines," he said.

The conglomerate thoroughly taps one diamond lode before starting work at another site, Cole said. Recently discovered diamond deposits in Australia — deposits that may rival South African reserves — have yet to be touched.

In another instance diamonds at a South African mine were so plentiful that DeBeers people poured sand over the area, and cement on top of that, to preserve the site and hold back the diamonds from the market.

"They (DeBeers) have methods, just as the oil cartel has methods, of boosting price," Cole said. "Is your car really worth $12,000?

"Detroit may put 400 cars on the market, and they'll sell for $12,000. Put 5,000 cars on the market. Will they still sell for $12,000? Heavens, no," Cole said.

John Muschinski, branch manager at Integrated Resources Equity Corp., Troy, said he counsels clients against diamond investments because the market is too controlled and unpredictable.

Speaking of "investment grade diamonds," Muschinski said: "Just a few years ago they ran the market up so high that one-carat diamonds, very high quality, were selling for $60,000. Now they're down to $20,000 a carat."

Cole confirmed that a high-quality, one-carat diamond purchased for $52,000 in February 1981, when the diamond market peaked, is worth about $23,000 today. "But the price slowly deteriorated," he said. "It didn't just drop overnight."

And diamond prices did not decline by plan, Cole said.

"DeBeers controls the (diamond) market but DeBeers does not control inflation or high interest rates. And interest rates control the (diamond) market," Cole said.

Muschinski said another reason he advises against diamonds is because "the little investor is trapped into buying a diamond at retail, and the only way he can sell is at wholesale."

ERNEST HELLER, a Rochester jewelry store owner for 23 years and a jeweler for 50, acknowledged that retailers will not pay the public top dollar for diamonds.

"Retail is retail," he said. "It's not a non-profit business."

Heller said a $3,500 diamond may be marked up to $7,000 by some jewelers. Cole agreed that retail markup usually totals 100 percent.

A diamond owner who paid the retail price for a gem may decide to sell his or her diamond after many years, by which time, with inflation and appreciation, the "$7,000" diamond may indeed be worth $7,000, Heller said. But a shrewd dealer will offer as little as is necessary to reacquire the diamond — perhaps as little as $3,500.

Heller said the labor that goes into the cutting and finishing of a diamond has a lot to do with the price of the finished product. A raw, one-carat stone, purchased for as little as $12, may require 20 hours of work by skilled diamond cutters who are paid at least $25 per hour. "Labor, that's what costs," he said.

Heller added that he wouldn't hesitate to invest in diamonds — by buying from a broker, probably in New York City, and eliminating the middleman.

AUTHOR EPSTEIN in "The Rise and Fall of Diamonds" relates a case study of diamond prices carried out from 1970 to 1978 by Money Which, a British financial publication.

The editor of the magazine purchased two one-half-carat diamonds for a total of 400 pounds. Eight years later the diamonds were offered for sale. Every attempt was made to assure fairness by dealing with reputable diamond brokers.

After eight years the 400-pound diamonds were valued at 500 pounds. Had the diamonds merely kept pace with inflation, they would have been worth 1,400 pounds.

In terms of 1970 dollars the diamonds were worth 167 pounds in 1978.

Cole called the report an isolated case and reasserted that diamonds purchased for investment should be at least one carat in weight. And he again cited his company's figures of price increases during the same time period.

Heller referred to a diamond industry publication, which he refused to name, and said, too, that diamond prices rose dramatically in the time frame described by Epstein.

Michael Freedman in "The Diamond Book," published in 1980, wrote: "On average, while rough stones have risen 12 to 13 percent per year over the last 10 years, cut and polished investment stoness have risen around 25 percent per year.

"In the latter half of the '70s both percentages are even higher, but especially for finished investment goods."

ARE DIAMONDS forever? Are they even a good investment?

One indication is that diamonds, while far from rare, are a solid investment, if only because prices have fallen so drastically in the last 2½ years.

But Muschinski, the investment counselor, said that's no guarantee of higher prices in the future, and Cole, the diamond broker, said he could not predict the future of the diamond market.

Cole also said declining prices for investment diamonds do not mean the person who goes to a neighborhood jewelry store to buy a one-quarter-carat diamond will pay less than he or she would have two years ago.

Retailers, Cole said, have maintained high price levels because they purchased their diamonds when prices were high.

Heller, the jeweler, would invest in diamonds, but he wouldn't buy them retail, he said.

Of course there's another side to the question — that is, how can one gauge the sentimental value of a diamond that may have been given as an engagement or anniversary gift?

Unfortunately, brokers who may be asked to buy a diamond back do not consider that question. That means the romantically inclined buyer who purchases a small diamond for a loved one may never entirely get his or her money's worth.

Only one thing seems certain. Despite claims that the world's diamond supply may last only another 30 or 40 years, Cole and Heller, citing recent finds in Australia, agree that the world may never run out of diamonds. In that sense, diamonds are forever.

ANGIE McINTYRE/staff photographer

Aldolfo Lalison, diamond cutter for Charles Reaver Cut Kent Co., begins cutting a diamond that may be worth as much as $23,000.

Divided land mended by U.S. Constitution

One hundred ninety-six years ago, strong-willed men gathered in Philadelphia to remold and mend a divided land. The Articles of Confederation, which had taken effect in 1781, had failed, and the task of creating a new national government was immense. Quakertown Chapter of Daughters of the American Revolution remind you that the week of Sept. 17-23 is Constitution Week.