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Gemstone Forecaster

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The Pros and Cons of Investing in Gemstones

By Robert G. Genis

Obviously, we are faced with a wide variety of investment choices today, and recent times have shown great volatility in many markets. Stocks, bonds, precious metals, collectibles and even crypto. We were taught that bonds protect our portfolio when the stock market goes down. If you have a significant bond portfolio, you now know this is not true. Both bonds and stocks have gone down together. Many over 20%. How about crypto? Some have gone to zero and including the top two; Bitcoin down as much as 65% and Ethereum 75%. Many people cannot look at their portfolios on their phones anymore. It's just too depressing. So it might be an important time to take another look at investing in precious colored gemstones. Especially in these inflationary times because gems have historically been viewed as inflation hedges.

Here are some pros and cons of investing in gemstones:

Pros

Price Stability

As a general rule, gemstones are not subjected to extreme volatility and price fluctuations like stocks or crypto. The only exception we can think of was D-IF white diamonds in the early 1980's. When gold and silver crashed, D-IF diamonds followed. D-IF's went from $65,000 per carat to $15,000 per carat in a relatively short time. Interestingly, colored diamonds and colored gemstones barely dipped or remained stable. One incident in over 40 years is a pretty good track record, especially when compared to the crypto markets. D-IF diamonds never returned to their lofty heights as investors learned not to invest in stones propped up by a Cartel. Instead they would only buy truly rare colored gemstones and colored diamonds. As a general rule when you buy a world class gemstone, you don’t have to worry about its price declining rapidly. This price stability means a great deal to many people.

Immune to Financial Catastrophes

Based upon historical price data, quality colored diamonds and colored stones have proven themselves to be excellent long-term hedges against economic uncertainty and currency depreciation. The bottom line is high quality gemstones often operate in their own pricing cycles, almost irrelevant to world economic cycles. They will retain wealth during periods of high inflation, low inflation and hyperinflation. Statistics show precious gems and colored gemstones even performed better than stocks and commodities during the Great Depression (1929-1932). Gemstones and diamonds have a history of being viewed as the ultimate portable safe haven during periods of war, currency devaluation and financial panics. You could argue the world is experiencing all three at once today. Diamonds preserved wealth in Depression-era Europe. Gemstones have been used by wealthy families to escape state oppression in Europe, Russia, China, South America and other parts of the world. Rare gems have often provided a new life for people escaping these catastrophes.

High Stability during Covid

The demand for fine precious gem stones seems to never decrease. Unexpectedly, demand for precious gems and diamonds surged during the Covid lockdowns. This seems counter intuitive but is the reality. The jewelry business increased in 2021 over 30% from 2020. Since people weren't spending money on travel, they bought gems and jewelry instead. Obviously, irrespective of the market conditions, gems remain a viable investment. If you want to invest in something that generally steadily appreciates, similar to precious metals, gemstones might be an excellent option to consider.

Portability

Gemstones are the most concentrated form of wealth known to man. A gem worth $100,000 fits in the palm of your hand, yet weighs less than a penny! You can carry gemstones in your pocket, and no one will be able to tell. Gemstones are highly portable and don't set off metal detectors or body scans at airports. Imagine trying to transport $100,000 in gold or silver through the airports.

Durability

Gemstones are relatively durable and will not change with time. They will still be here long after we are gone. Ever buried cash in your backyard? Dig it up in a few years and notice the decomposition. Ever notice how silver becomes black because of the air? This will never happen to your gemstones. Just keep them safe in your home vault or your safety deposit box. No worries.

Gems are Anonymous and Private

Currently, gemstone and diamond transactions are not individually reported to governmental agencies. Can't say that with traditional investments. You can store your gems secretly in a bank vault or other secure location. This constitutes the extent of your maintenance. With colored gemstones and colored diamonds, there is a confidentiality of ownership. However, we do recommend consulting a professional tax advisor for your personal reporting requirements.

Increase in Value

Some of our recent clients have been mounting their stones in jewelry, contending this will increase the value of their gemstones. Although we are not sure about this sentiment, we understand why many do not want to hide these beautiful gems in their safety deposit boxes or their vaults. It's a rare investment you can enjoy in jewelry. Many plan to pass their investment along to future generations via this method.

Cons

Here are some of the cons of investing in gemstones. Make sure you are mentally prepared and understand the pros and cons before you collect/invest.

Research

This is a highly specialized field and you need to have some gemstone knowledge before you invest. You cannot blindly believe what a website or social media platform says about the value or quality of a gemstone. You need to understand the gem market by reading books and comparing many gem web sites. You should browse through our amazon link and read some of these technical books: https://www.preciousgemstones.com/learn-about-gems/gemstone-books

Many collectors/investors prefer to only specialize in one specific stone. Others want to diversify in as many different types of gems as possible. Decide which type of investor/collector you are. Find a reputable vendor or two that you get along with and that seem honest. Don't automatically assume some international seller on Facebook is going to deliver the goods they promise. Many simply steal gem images from other dealers. Caveat Emptor.

Grading

When the internet first became a source of high end gemstones in the 1990's, it was relatively easy to compare apples to apples. There were three large firms that primarily sold with complete AGL grading reports. Sadly, we are the only firm left that market's stones with AGL full grading reports today. As more and more firms entered the gem marketplace, they found it easier to go with the labs that give out very limited information. Who does this benefit? Well, not the consumers. Many labs simply call stones pigeon blood ruby if they are vaguely red, rather than a specific amount of red that is required under the older AGL system (70% red). Same with royal blue and sapphires. (AGL says you have to have 70% blue).

TECHNICAL NOTE: AGL has recently stopped using color scans for their full grading reports. However, we can still deduce the color scan from the new color grade. For example, a Burma ruby with a 2.5 color is the same as 70% red.

Today with a myriad of gem labs all over the world, this is making it more difficult, especially for novice collector/investors. Seems like we are often comparing apples and oranges. These substandard grading reports put the novice buyer at a disadvantage. The gem dealer has all the information and the client very little to go on. It remains our advice to buy stones with a full AGL Prestige Gemstone Report. Many of our collectors believe the older AGL's are the best. That is why we would never throw away these older grading reports, even if you also have a new one. If you are considering a stone with another grading report that says only pigeon blood or royal blue, you want the new full grading AGL Prestige Gem Report. You want to know the color/tone, clarity, brilliancy, proportions and finish. Also, you want confirmation of country of origin and treatments, if any. Demand the dealer send the stone to AGL for a second opinion. Offer to pay for this. It will be money well spent. If the dealer won't do this, walk away from the deal.

Gems are a long-term Investment

Gems are not like meme stocks, crypto or Forex. You cannot trade these instruments. You will have to view your gem portfolio as a long-term investment and sell them at the right time. if you are in a cash bind, unlike traditional investments, you will not be able to get the right price if you need to sell your gemstones immediately. Gemstones are fascinating in that there are gem markets all over the world. However, it's very difficult to find buyers for gemstones at fair prices. Gems must be viewed as having low liquidity. If you need instant liquidity, you are better off in the traditional markets. Think of gemstones as similar to real estate and collectibles like wine, art, and cars. Are they immediately liquid? No. Are they good investments? Absolutely. How do you not get yourself in this position of being a forced seller? The simple answer is to only put a small portion of your wealth into gems and colored diamonds. If constructed properly, your portfolio should have plenty of instruments that you can use if you absolutely need funds immediately.

Fraud

When we first got on the internet in 1995, our main purpose was to stop the Canadian boiler room companies from ripping off Americans. They used high pressure tactics and sold gems with look alike grading reports that mimicked AGL. Just when I think American investors are safe in the water, a Canadian company, Paragon International Wealth Management, was indicted in May for selling low quality colored diamonds with fake certificates. Never forget, if someone calls you you don't know on the telephone, never buy an investment from that company. Golden rule.

In Sum

Many people invest in gemstones because they are a high-return investment. However, if you look at long term statistics, the real winners are people that buy gems and jewelry and forget about them. A recent stock market study by Fidelity showed the clients that had the best portfolio returns were either dead or forgot about their 401K accounts (for example moved jobs and simply forgot). The overly active traders did the worst. You have to be patient, hold long term, and mimic the Fidelity investors.

If you choose to allocate some of your funds to this market, don't forget to have fun with it too!

Interesting Auction Gems

3.04 Burma Ruby Courtesy Christie's

Sometimes we get emails from subscribers to the newsletter asking us to focus on more affordable gems at auction. After all, it's pretty easy to get excited about multimillion dollar large Burma rubies or colored diamonds. However, point taken. Only a few can afford these large and fabled rocks.

Christie's Magnificent Jewels on May 25, 2022 offered a 3.02 Burma Ruby. Its presale estimate was about $120,000 to about $190,000. The stone sold for about $225,000 or $74,500 per carat.

The stone had an AGL grading report stating it is Burma, no gemological evidence of heat. It's pretty obvious the stone has a large window, hence its low brilliancy, However, a good goldsmith could properly mount the stone to improve this. I can tell the stone is moderately Included (MI) from the photograph. This is normal for many Burma rubies and is important in deciphering no heat and Burma origin.

5.09 Paraiba Courtesy Bonhams

Bonhams Hong Kong Jewels and Jadeite sold a 5.09 Brazilian Greenish Blue Paraiba for $377,692 or about $75,000 per carat. The stone had an AGL report stating Greenish Blue, Brazilian and low heat. The stone was also graded by the GIA as pure Brazilian blue but the color origin cannot be determined, which means they are unable to determine the heating of the stone. We believe the AGL is the most accurate and have included an image of the AGL Report below. Still seems like an excellent price for the buyer. These are very rare at this size.

The Prestige Gemstone Report™
American Gemological Laboratories
AGL

Imaging

Images do not accurately portray size or color.

Accu-Vu™ Imaging:

Comments:
This diagram is an example and does not represent the actual facet arrangement of the item described

Identification

Document No: 8086841 Validation Date: 26 September 2017

Identification
Mineral Type: Natural Tourmaline
Variety: Paraiba Color Description: Greenish Blue

Carat Weight: Stated by Client 5.09 cts Shape: Fancy
Measurements: Approx. 11.4 x 13.1 x 6.81 mm Cutting Style: Mixed Cut

Comments: Set in a white metal ring with several pear and marquise diamonds (identified at random). Paraiba is a trade term/color variety applied by the AGL to the copper-bearing variety of elbaite tourmaline, which was first discovered in the Paraiba state of Brazil.

Origin

Origin
Provenance: Brazil

Comments: Based on available gemological information, it is the opinion of the Laboratory that the origin of this material would be classified as Brazil.

Enhancement

Enhancement
Standard: See comments Additional: None
Stability Index: Color Stability: Excellent

Comments: This color variety of tourmaline is commonly the result of a relatively low temperature heating process.

1 2	3 4	5 6	7 8	9 10
Excellent	Very Good	Good	Fair	Poor

Enhancement Stability Index™

None	Insignificant	Minor	Moderate	Strong	Prominent
Extremely Rare	Very Rare	Rare	Uncommon	Common	Very Common

Degree of Clarity Enhancement & Relative Rarity™

General Report Comments:

Christopher P. Smith, President

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About Us

American Gemological Laboratories™
America's first and most highly respected origin lab.

Founded in 1977, AGL is an internationally recognized gemstone testing facility, specializing in comprehensive colored stone analyses.

AGL has the distinction of being the first laboratory in the United States to issue Country-of-Origin reports. Our company and its principals have a long tradition of research into the detection of and reporting on gem identification-and-classification, gemstone treatments and provenance determinations.

Our staff is composed of experts in the field of gemstone testing and reporting. Our findings reflect the latest knowledge and analytical techniques to ensure the highest standards are applied on every stone we test.

AGL's testing and reporting methodology provide you with unsurpassed quality and reliability. We are committed to providing the highest level of service and reporting that our clients and the industry have come to expect from the AGL.

Auction Houses Go Wild
Sky High Commissions
by Robert G. Genis

What is going on here with these outrageous increases in premiums? Did the pandemic drive these people crazy? As long as we can remember, the auction houses took 10% from the buyer and 10% from the seller. Seemed fair.

Take a look at these new rates:
Sotheby's

As of February 28, 2022 the new Buyer's Premium rate is as follows:
25% on any amount up to and including $1,000,000
20% on any amount in excess of $1,000,000 up to and including $4,500,000
13.9% on any amount in excess of $4,500,000

Christie's new rates.
Not to be outdone, Christie's follows suit with higher rates than Sotheby's. From their web site for New York:

26.0% on any amount up to $1,000,000
20.0% on any amount between $1,000,000 and $6,000,000.
14.5% on any amount above $6 million

Bonhams too:
For all Sales categories:

27.5% on the first $25,000;
26% from $25,000 up to $1,000,000;
20% from $1,000,000 up to $6,000,000;
14.5% in excess of $6,000,000.

Although this is called a buyer's premium, what will be the effect? Buyers know the auction house is going to add 25% to the deal. Obviously, the buyer is going to bid 25% lower knowing this fact. Who does this hurt? Obviously, it hurts the sellers. Most of the 25% the auction house is taking would have theoretically gone to the seller.

Let's go through a hypothetical example to see what is happening.

Assume you are selling a Burma ruby. Fair market auction value is $125,000, for simplicity sake. If you are the buyer, are you going to bid $125,000? No, you are going to bid $100,000. When you add the new buyers premium, you are at $125,000. The seller, in the old days would have expected the stone to sell for $125,000 minus 10% auction seller fee and would have ended up with $112,500. Now, the seller would end up at a hammer or strike price of $100,000 minus auction 10% seller commission or $90,000 net. In reality, the seller ends up with $22,500 less than before. Who gets the money? The auction house.

Does this seem fair? Not to us. Why should the sellers become partners with the auction companies? The auction houses have no real money into the gems that are buying and selling. Why do they deserve partner status? Imagine if you bought a house and had to pay a 25% commission? Your $1 million house now costs you $1.25 million. Yikes. We understand new CEOs have been recently hired for Christie's and Sotheby's, however, is this the best direction to take these companies? I understand the pressure they must be under to provide more profits, but at what cost? We contend these new commissions will do nothing but hurt these companies as word gets out.

For decades we have recommended these three companies and sent many clients and their goods to auction. We are now withdrawing this long standing recommendation. If you are thinking of sending goods at auction, please hold off. Let's see what happens. Caveat venditor.

Diamond News
How to invest in a fraction of a diamond
A new fractional ownership marketplace allows investors to buy a sliver of the pricy gemstones

The idea is that special diamonds, which have been steadily gaining value, will offer potential returns as investments to retail investors.
Bloomberg
June 10, 2022

Call us old school, but we emphatically believe when you buy a hard asset, you should take possession of the asset. Of course, you can wire large sums to credible firms, but you want the goods as soon as possible. Doesn't matter if it's gems, precious metals, art or a Ferrari. These new fractional instruments violate this principle.

Back in the crazy diamond investment craze of the the 1980's, many firms created limited partnerships to sell shares of white diamonds to the investing public. What is the old joke? The general partners start with no money and all the knowledge. The limited partners end up with no money and all the knowledge. Point taken. Further, this deal is being offered at a starting price that is way too high - $750,000 per carat. You cannot start off at retail and expect to make any money. These new fractional ownership schemes remind us of the old limited diamond partnerships. You send money to people you believe you can trust. Of course, you lose control and bad things can happen. The safest and most secure place for your assets is to remain in your possession. ED

A new fractional ownership business centered on fancy colored diamonds will offer retail investors a rare chance to begin investing in the pricy gemstones.

Luxus, founded by hedge fund expert Dana Auslander and fashion journalist Gretchen Gunlocke Fenton, made its debut recently with a first offering of a .54 carat fancy pink diamond.

The company aims to give retail investors the chance to buy a sliver of the stone, starting at 0.1 per cent, with the opportunity to participate in a market normally out of reach for those who do not have millions to invest.

The idea is that the special diamonds, which have been steadily gaining value, will offer potential returns as investments. But, as with many such fractional ownership enterprises, retail investors will have no access to the stone or influence over how or when it might be resold — and returns realized.

Today, fancy pink diamonds remain among the world's priciest diamonds. The largest, most exceptional stones sell from $1 million to $1.2m a carat at retail.

The most expensive diamond of any color sold was the Pink Star, a 59.6 carat internally flawless fancy vivid pink diamond that sold for $71 million in 2017 at a Sotheby's auction, or just under $1.2 million a carat.

Fancy colored diamonds have typically gained 9 per cent to 12 per cent annually in recent years, according to the Fancy Color Diamond Index (FCDI), which tracks the wholesale prices.

From the start of 2005 through to the first quarter of this year, prices for fancy vivid pink diamonds, a high grade, achieved 427.8 per cent growth.

Not all pink diamonds are created equal, but even lower-quality colors gained in price. Fancy pink diamonds, a lower grade, gained 325.6 per cent in price and fancy intense pink diamonds 382.6 per cent.

In comparison, the price of gold gained 300 per cent over that period — the S&P, 384 per cent.

How do you get in on the game?

Unless you have millions of dollars to invest, you'd be unable to acquire any of those gems, and smaller stones and colorless diamonds don't achieve comparable price gains.

With the growth of alternative investment platforms, including for art, sports memorabilia and cryptocurrencies, it was only a matter of time before someone created a platform for gemstones.

The first offering users can buy into is a .54 carat fancy vivid purplish pink diamond from the legendary (now closed) Argyle Diamond Mine in Australia, which was the source of 90 per cent of the world's pink diamonds.

Luxus sourced the diamond from Kwiat, a family-owned diamond company founded in 1907 that acquired the diamond as an investment at the Argyle Tender, a sealed-bid sales event, in 2016.

Ms Auslander, Luxus's chief executive, spent years structuring and developing products for hedge funds and working in asset management at companies including Blackstone Alternative Asset Management and Harbinger Capital Partners before co-founding the platform.

Ms Gunlocke Fenton, who worked in public relations for Chanel and was a fashion editor at Vogue, Town & Country and Glamour, brings knowledge and connections in the jewelry industry.

In July 2021, they decided to launch Luxus and raised $2.5m in pre-seed funding from investors including fashion designer Veronica M Beard.

This year is to be a testing period with the rollout of Luxus's first product, the pink diamond. If the planned full launch next year is successful, Luxus will expand to other fancy colored diamonds, including blues and yellows. The founders hope to expand into rare watches.

How will it work?

Luxus will offer 2,000 shares in the pink stone at $200 each, valuing the diamond at $400,000. The company says pricing for this stone — and future products — is set below retail prices and above wholesale, as determined by market data and assessments by independent third parties, including the International Gemological Institute.

An independent advisory board, which is currently being assembled, will assign pricing after the full launch of Luxus in 2023, the company says.

The offered price is a good measure of the trade market value, says Greg Kwiat, chief executive of Kwiat.

"One of the most important things that we bring to this is that the pricing to [retail] investors needs to reflect fair market value that positions them for upside, which by definition means not buying it at the highest price anyone could imagine paying for it, and not a retail price."

After 12 months, Kwiat will work to sell the diamond for Luxus.

"When it sells, that's how the [retail] investors will participate in upside. All the while, we'll be making sure to sell it for a price that reflects the full current market value," Mr Kwiat says.

"I think we'll sell it in a similar manner to how we sell all of our important assets: showing it privately to the best potential buyers of the assets."

He is excited about Kwiat being the first jewelry company to participate in this offering, which he sees as part of the future of the industry.

"We need to be forward-looking. You know, I think this is one of the most exciting things I've worked on in 20 years of my career so far in jewelry," he says.

What should potential shareholders look for?

Neither Kwiat nor Luxus will disclose the stone's initial purchase price, so potential retail investors cannot see its price history and must trust that it is properly priced for them to make a profit.

This is a potential cause for concern, says Martin Rapaport, founder of the Rapaport Diamond Report, which tracks diamond prices and markets globally, and RapNet, an electronic diamond trading network with 930,000 diamonds.

If it were offered by an unknown company and "you don't have transparency about what the actual cost of the diamond is, run away fast", Mr. Rapaport says. "Investors are at a distinct disadvantage when they don't know the actual cost of the item."

Traditionally, dealers don't discuss what they paid for a stone, something that may need to change in the era of fractional ownership.

Looking at his databases, Mr. Rapaport would value a similar diamond at a dealer price of $300,000 to $400,000 per carat, which could potentially retail at double the price.

As the stone is roughly half a carat, this estimate would mean fractional investors are buying the stone at somewhere around the current retail price.

It's impossible to find an exact comparison because every stone is unique, he says.

"It's difficult to compare something so rare," he says. Only more transparency from Luxus could let retail investors know if they're getting good value or overpaying.

Fees and sale

One of the downsides of alternative investments can be high fees that eat into retail investors' returns.

While Luxus does take fees, Ms Auslander says she intends to keep them as low as possible to entice retail investors.

"I come from a world where you have to be really mindful of what investors end up paying for," she says.

That includes Luxus absorbing the start-up costs, filing fees and broker fees; having the company store the diamond and maintain insurance (which she says will not be added later as a cost); and including an undisclosed listing fee — which Luxus maintains is lower than those of auction houses — in the offering price, so no surprises will accompany a sale.

Any sourcing fee, which can reach 10 per cent or more for Luxus, is included in the initial price. Luxus charges an annual management fee from 0.5 per cent and 1 per cent, to be paid out at the sale.

The company estimates it will hold assets from 18 months to three years, but in practice the period could run from as little as 12 months to as long as eight years.

There are to be no transaction or trading fees if shares in an asset are sold on Luxus's secondary trading platform before the stone is sold.

In addition, a stone's vendor must sign a commitment to purchase a minimum share of the asset — in Kwiat's case, at least 10 per cent — and Luxus says it will also purchase shares to ensure that its interests align with those of retail investors.

Ms Auslander describes the prospective sale of a diamond as "a capital market transaction on the way in and a private equity exit on the way out".

Luxus uses a waterfall distribution method, so once the fees are paid to it and initial capital investments are returned to all shareholders, retail investors will receive 8 per cent preferred returns of the profit.

Whomever then sells the asset — Luxus or the stone's vendor, such as Kwiat — will receive 20 per cent of the remaining profit; the final 80 per cent is to be distributed to the shareholders.

The fees are lower than those of Masterworks, a fine art fractional ownership platform, Ms Auslander says.

Masterworks charges a 1.5 per cent annual fee and expects to hold onto the artworks from three to 10 years, as well as a 10 per cent sourcing fee, 20 per cent of future profits (with no preferred returns), and some undisclosed potential expenses and fees.

Luxus plans to add additional source partners next year.