

THE COLOURED DIAMOND CHRONICLE

WHY THE WORLD'S MOST VALUABLE GEM BELONGS IN YOUR PORTFOLIO

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Today, I'd like to tell you about a super-concentrated asset that remains unknown to most investors: colored diamonds.

Much like gold or silver – diamonds act as a dependable store of wealth. They guard against inflation - and hold their value when traditional asset classes hit the deck. But unlike most hard assets - they are extremely portable. (You can fit millions of dollars worth of diamonds comfortably inside your coat pocket!)

At a time like this when stocks are reeling and house prices are plummeting, these gems can add a much needed boost to your portfolio.

Here's why I believe that diamonds can play an important part of a hard-asset strategy this year.

Recession-Proof Track Record

History shows, colored diamonds have been one of the best performing assets during periods of inflation and currency devaluation.

Since the early 1970s, they have increased in value by an average of 10-15% a year – even in times of distress...

- During the 1970s and early 1980s, when inflation raged and the economy contracted, colored diamond prices grew at a double-digit rate
- When the NASDAQ bubble burst in 2000, they held their value
- And during the currency crises of the late 1990s, investors trapped in Argentina and Russia used them to protect their wealth from the plummeting Argentine Peso and Russian Ruble

Today, with the dollar potentially on the ropes, more and more investors are grabbing hold of them.

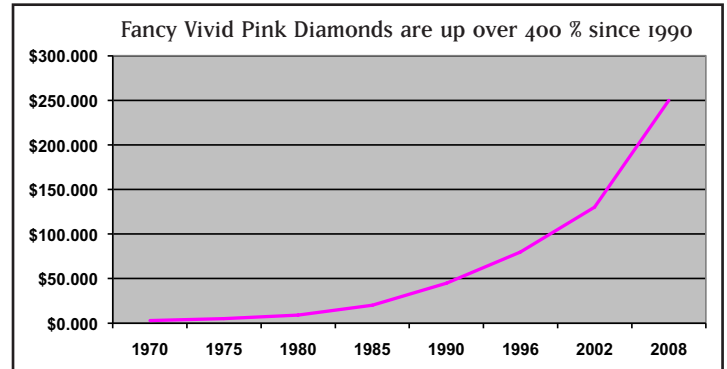
Three Reasons Why Diamonds are an Investor's Best Friend

Over the past ten years - while the stock market has shimmied sideways - Gold has risen 213%. Silver too has gained 159%. But unbeknownst to most investors colored diamonds have also held up well. Some have even triped in value. I fully expect this trend to persist as the economy continues to deteriorate.

In fact there are three main reasons why diamonds will be an important asset to own this year:

- 1.) Scarcity - thanks to mine-related shortages
- 2.) Record demand from new investors
- 3.) Widespread hoarding

Let's take a look at how these forces are shaping a bull market in colored diamonds.



A Fast-Dwindling Supply Practically Guarantees Higher Prices

From Australia to South Africa, diamond supply around the world continues to decline. Last year...

- BHP Billiton production fell by 24%
- Rio Tinto saw its production fall by 23%
- Australia's famed Argyle mine reported a 30% decline
- And De Beers' production fell by 4.1%

This supply crunch is helping to keep prices stable during a year that's seen almost every asset class get torn to shreds.

At the same time – demand from haven-seeking investors and jewelers has put a floor under prices – and caused some diamonds to rapidly appreciate in value.

Demand For Diamonds Hits the Roof

All around the world, investors are waking up to the potential of rare colored diamonds.

But it's not just investors who are picking up diamonds... The global jewelry industry continues to offer its strong support.



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In the Middle East and Asia, the aesthetic value of diamonds is gaining popularity with a growing segment of upscale consumers. According to Karim Merchant, managing director and CEO of Pure Gold Jewelers, the growth rate of diamond sales has outpaced that of gold jewelry.

Meanwhile, China and India continue to experience strong growth in diamond sales as investors turn away from paper assets and new dealers and jewelers expand their reach into major cities in these growing economies.

Back in the U.S., at Christie's New York auction, demand is holding up extremely well. Recently, a large blue and pink stone sold for over \$6 million. And overall, nearly \$30 million worth of diamonds changed hands. High profile auctions like this serve as a barometer of stability in the market and illustrate the reliability of colored diamonds as a store of value.

Diamond Investors "Hold on Tight"

The third major factor in diamonds' favor is the widespread growth of hoarding. This of course has an effect of diminishing the available supply - and keeping short-term market volatility to a minimum.

When you add it all up - a constricted supply - rising demand - and a population of diamond owners that refuses to part with their investment - you can see why this market has proven to be recession-proof.

But there's one important question we have left to answer: China. They are expected to reach growth rates of 7-8 % in 2009 and Chinese retail sales rose a healthy 22 %, close to the fastest pace in nine years.

China's government pledged \$586 billion of spending, seeking to boost confidence as the economy loses steam. China, South Korea and Japan have some of the largest cash reserves in the world and have pledged to use some of that money to thwart any economic downturn.

The big package sent a signal for people to keep shopping," said Arthur Kroeber, head of research at Dragonomics Advisory Services Ltd. in Beijing. "Rising domestic consumption will help to cushion economic growth in the coming months."

Which Diamonds Are Right for You?

If you're thinking about jumping into the diamond market - or expanding your holdings - I recommend starting out with these three types of stones:

Vivid Yellow Diamonds – Vivid is the highest grade a diamond can receive and these pieces are experiencing strong sales at the retail and auction level. The most viable source for Vivid Yellows is in Southern Africa, and with supply on the decline, prices are rapidly rising.

Pink Diamonds – Argyle diamond production declined almost 30 % last year as the Argyle open pit mine ceased production in November 2007, almost one year earlier than expected. This means the source of 95 % of the world's pink diamond production will drastically decline in a segment of the market that only produces a few hundred carats a year. The insatiable demand for these beautiful collector's items is expected to lead to prices doubling in the next 36 months.

Chameleon Diamonds – These unusual olive-green diamonds are the only diamonds that change color when they are exposed to light or gently heated. They are very undervalued as green is a color that appears infrequently in nature, which makes them particularly rare and sought-after.

How to Purchase Diamonds Safely and Securely

To make sure that you receive the highest quality diamonds for the fairest price, keep these tips in mind:

1. Purchase colored diamonds from a specialist dealer

Specialized colored diamond dealers have built up a network of contacts to access rare pieces on behalf of their clientele. They understand the subtle nuances of the market and have the expertise to identify the most undervalued offerings in the market with the strongest long-term potential.

2. Buy only certified diamonds

This protects you against purchasing counterfeit diamonds or stones that have been artificially colored. Certificates issued by the Gemological Institute of America (GIA) and the High Diamond Council (HRD) in Antwerp, Belgium or a Stephen Hofer Report should accompany any purchase.

3. View colored diamonds as a mid-to-long-term investment

Keep in mind - diamonds are not an asset class that you should hop into or out of in a short period of time. But they can be the perfect addition to any portfolio seeking to fight off this recession - and the ensuing wave of inflation.



Pastor-Genève bvba is a Belgian firm that deals exclusively in rare colored diamonds.
Managing Director Stephen Hershoff has more than 40 years of experience in the gemstone business.

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