

Fancy Colored Diamonds to Sparkle in 2016

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Hong Kong billionaire Joseph Lau paid a combined \$77 million for two fancy colored diamonds at auctions in Geneva last month -- \$48.4 million for a 12.03-carat vivid blue at Sotheby's and \$28.5 million for a 16.08 carat vivid pink at Christie's, extraordinary prices for extraordinary stones.

But Lau, who reportedly also happens to be wanted in Macau where he was [convicted in 2014](#) of bribery and money laundering, is not alone in pursuing fancy colored diamonds. Pink and blue and even yellow diamonds are among the hottest jewelry items this year and that's not expected to change in 2016.

"Fancy colored diamonds are probably more important today than ever before," Graeme Thompson, Director of Jewellery, Asia, at Bonham's said at a recent Hong Kong press event detailing results from the Knight Frank Luxury Index. The term "fancy" speaks to the depth of color in a stone with a "fancy vivid" having the richest hue.

The luxury index, which tracks colored diamonds as well as jewelry among ten asset classes, including classic cars and fine wine, rose 10% in the 12 months through September and 63% in the last five years. Prices of colored diamonds, despite eye-popping auction prices, haven't risen in the past year, a casualty of the Chinese economic slowdown and the government's anti-corruption crackdown. Still, the category rose 142% in the past ten years.

Most of that growth is from pink diamonds, up a soaring 315% in ten years, and blue diamonds, surging 154% in that time, the Fancy Color Research Foundation reports. Larger white diamonds have risen in value too, but much more slowly, at a growth rate of 5% a year for the last six years, says Knight Frank, citing Mercury Diamond.

Why are colored diamonds popular? Well, auctions with headline-grabbing prices are one reason. A bigger one is "very, very little supply in the fancy colored diamond market" says Thompson. And, as he says, "people want rarefied things."

All signs point for the fancy color trend to be hot into 2016 and beyond. The big reason is this lack of supply. To start, there are simply fewer color diamonds in the world -- only a fraction of a percent of all diamonds, says Tracey Greenstein, director of research at the Fancy Color Research Foundation. Historically, supply has constantly lagged demand in all colors, Greenstein says.

The rarest sparklers of all are pink. About one in 10,000 carats of diamonds are fancy colored diamonds of gem quality, and of these, only 0.1% are pink, Bonhams says. And nearly all the supply of pink diamonds in the world comes from the Argyle Mine in Western Australia, which owner Rio Tinto is expected to close within five years. "That will have a huge, huge impact on pink diamond prices," Thompson says.

Less popular this year, and likely to remain so in 2016, are regular white diamonds. When it comes to the smallest white diamonds, those less than three carats, again, it's an issue of supply. But this time there's too much of it, which combined with a proliferation of jewelry shops in China's lesser-tier cities, is creating a softer market.

"I wouldn't say prices are dropping significantly, but discounts to the full list prices are going to be greater than what we were seeing in the past," Thompson says.

At DFS Group's luxury stores, white diamond jewelry remains popular, says Christophe Chaix, general

merchandise manager, watches, jewelry and accessories. But the fastest growing sector within the diamond world is yellow diamonds, Chaix says, especially fancy yellow diamonds. These are more common, and so more affordable, than their pink and blue counterparts.

Also a favorite are “tutti frutti” pieces, created with rubies, emeralds and sapphires, Chaix says.

Colored gemstones are having a good run in the auction world too, particularly for scarce gems like Burmese rubies and Kashmir sapphires. “We’ve seen quite dramatic price increases for exceptional stones,” Thompson says.

Just last weekend, Bonham’s sold a pair of Kashmir sapphires that were said to be owned by a European princess for GBP1.5 million (US\$2.3 million), topping the estimate of GBP500,000 to GBP800,000. And last week, Christie’s in Hong Kong, sold a 15.04-carat Burmese ruby for HKD142 million (US\$18 million) and an Afghan Emerald for HKD17.6 million.

Such big-ticket sales can make even the wealthiest of buyers pale (well, maybe not fugitive tycoons), but they merely reflect retail prices, Greenstein at the Fancy Color Research Foundation says.

These sales do provide evidence to luxury consumers that diamonds and other precious jewels can grow in value over time. “How big is the impact? It’s all part of the magic which is in the world of jewelry,” Chaix says.

Top-shelf jewelers don’t typically create pieces from the rarest of gems because they are so scarce – again, a supply issue – and because the ultimate cost to the consumer would be too high. So, more jewelers are turning to semi-precious stones – like spinel, tourmaline and topaz – and they are looking at more easily sourced precious stones, like emeralds from Zambia or rubies from Mozambique.

“They are more reasonably priced and more abundant, for sure,” Thompson says.

The reason to buy jewelry, as Thompson made a point of emphasizing, is to wear it and enjoy it. But, when you’re spending thousands of dollars, it also makes sense to consider the investment value of what you’re buying. You may not be able pay millions of dollars for a Burmese ruby, but you can look for affordable gems that could rise in value one day.

One source could be gemstones from Africa, which often approach the quality of their rarefied counterparts. As Thompson says, consumers are becoming more aware of these stones, and so demand is increasing and so, prices should follow.

And of course, the market for white diamonds could be a good place to find value. White diamonds today, of three carats and more, are more attractively priced at auction than they have been in the past, making for “fantastic buying opportunities,” Thompson says.

Those purchases could reward by the end of next year, but more likely it will take another year or so down the road. Even if it takes longer, he points to a truism of the diamond market: prices rarely go down. “Historically, diamonds are a safe haven,” Thompson says. “There can be some short-term volatility in the diamond market, but it’s consistently higher over the medium and long term.”

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