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PASSION PAYS

## Cut out for brave hearts

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### Coloured diamonds suffer from lack of transparency in pricing and value

Intense pinks, luminous blues, or fiery reds aren't the domains of coloured sapphires or rubies alone. The white brilliance of diamonds, thanks to the influence of certain elements and other factors, are sometimes infused with hues of yellows, greens, oranges, and more.

And these fancy coloured diamonds have been gradually amassing favour. But can fancy coloured diamonds prove investment-worthy like their white siblings? It certainly seems so, going by the interest generated at auctions and the price rise in pink and blue diamonds.

But coloured diamonds are even more capricious than white when it comes to transparency and value. Here's what you should know about the fancy coloured diamond market.



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### **Grading factors**

Diamonds can take on a range of shades in brown, yellow, blue, orange, red, green, pink, and black. The factors that cause colours to seep into diamonds are varied; for instance, they take on blue shades from traces of boron. Green diamonds are thus because of natural radiation. Given the range of influencing factors, some colours are rarer and thus pricier than others. Green and red diamonds are the hardest to find. Yellow and then brown diamonds are the easiest — relatively speaking — coloured diamonds to get your hands on. Brown diamonds especially are available at lower price points.

Now, in a coloured diamond, it's the colour that wields the most control over pricing. Inclusions matter lesser in coloured diamonds than in whites. Fancy coloured diamonds are graded on three parameters — the hue or basic colour, the tone or how light or dark the colour is, and the saturation or strength of the colour. Diamond colours are also often a blend of more than one colour. While defining a diamond, the base or primary colour is tacked on to the end. That is, a basically pink diamond with hints of purple would be called a purplish pink diamond.

GIA (Gemological Institute of America) grading for coloured diamonds start from faint, very light, light, fancy light through to eventually end up at fancy vivid. Coloured diamonds, from the fancy to fancy vivid grades, are grouped in the fancy coloured diamond universe and are the ones sought after.

Further classification is done according to 'type' or the arrangement of atoms and level of nitrogen impurities in the stone.

### **Demand and supply**

On the supply side, due to limited reserves, mining activity is slowing. Rio Tinto's Argyle mine in Australia, the largest supplier of pink fancy coloured diamonds, may cease active production after 2020. The mine also yields brown diamonds. Half the world's yellow diamond supply comes from a single mine belonging to Kimberley Diamonds.

Meanwhile, demand for fancy coloured stones is gathering pace. According to Eden Rachminov, one of the founders of the Fancy Colour Research Foundation, prior to 2009 the wholesale market was made up of only a handful companies that exclusively traded the stones.

With the global recession setting in and diamonds showing some resilience, this grew to more than 15 companies exclusively trading fancy colour diamonds and over 50 companies adding these to their product lineup, he explains. The new dealers also held on to their products for longer periods of time in order to capture higher margins; it squeezed the already limited supply as product remained off the market until prices rose significantly.

This trend has continued, reflected in the overall 108 per cent price rise since June 2009.

### **Pricing issues**

It thus follows that coloured diamonds can make good investments now for gem-lovers with high-risk appetites, deep pockets and a very long-term view. But investors also have to contend with the lack of transparency in pricing and complex valuation.

One, with several grades and a host of influencing factors, it's hard to define pricing for any diamond, coloured or otherwise.



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Two, prices of fancy coloured diamonds beyond the auction market are not openly disclosed. A start has been made with The Fancy Coloured Research Foundation publishing an index for the fancy coloured diamond set, based on wholesale buying prices of leading dealers, primarily in Hong Kong, New York and Tel Aviv. The data is a representation of changes in price points gathered since 2005, according to Rachminov. Pink diamonds have gained the most, up 360 per cent in the last nine years, he adds, while blues are up 161 per cent. The jump in the value of pinks has mostly come from emerging Asian economies like China.

Three, individual perception of colour and beauty plays a big role too, making pricing rather whimsical. Four, investing or buying fancy coloured diamonds need huge initial outlays.

#### **Demand at home**

These are the reasons why the Indian market is yet to catch up with the global move towards fancy coloured diamonds, says Bachhraj Bamalwa, Director, GJF.

Stones such as intense yellow, intense pink, or intense blue can be four to five times the price of white diamonds, putting them out of most investors' reach, he adds. Further, India's preference for diamonds is a nascent trend, though expected to grow strongly. According to a Río Tinto report, demand from India and China can make up half the global diamond consumption demand by 2025. The hankering after fancy coloured diamonds in the developed markets can, therefore, eventually make its way into India.

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