

A PRECIOUS INVESTMENT

Investing in gems is largely an art based on passion and knowledge. There are no rules or benchmarks.

By Elaine Boey and Emily Chow

On May 29, 2012, two gems made headlines after selling for record prices at a Christie's auction in Hong Kong. The famed "Martian Pink" diamond, a round, intense pink 12.2-carat diamond, sold for US\$17.3 million, almost double its presale estimate. The Etctetra, a 6-carat Burmese ruby ring, sold for US\$3.3 million, a record price of US\$551,000 per carat.

Gems refer to coloured stones while diamonds are colourless. At one point, gems were commonly grouped into two categories — precious (diamond, ruby, sapphire and emerald) and semi-precious (everything else, such as tsavorite, amethyst, aquamarine, peridot and cat's eye garnet). Today, putting gems into these simplistic categories is no longer applicable (see terminology on Page 19). The rarer green tsavorite from Tanzania is far more valuable and more expensive than a mid-quality emerald.

Prices of coloured stones with luminous beauty and scarcity are expected to

keep trending up. Richard Wise, a gemmologist, author and president of R.W Wise Goldsmiths Inc, attributes this upward pressure to growing demand that far outstrips supply. Demand from China is particularly strong, he says. "Exceptionally fine [high quality, almost flawless] stones, say, of five carats and above, are very popular. They are seen as a portable alternate way of storing wealth," says Wise.

The global supply of gems is fragmented and controlled by



governments or small companies. "Unlike gold and diamond deposits, the deposits for gems are fairly small. There are a few exceptions such as emeralds from Colombia [said to account for 70% of the world's supply] but generally, the gem mines are small and can be exhausted in two to three years. So, it is not commercially viable for large companies to invest in and develop these mines," says Russell Shor, a leading authority of gems from the Gemological Institute of America (GIA).

Gems from countries such as Myanmar, Zambia, Tajikistan and Madagascar are mined by artisanal miners (small-scale miners who use hand tools and work long hours). In contrast, diamonds are controlled by large companies (see "Diamonds vs gems" on Page 20).

Without the financial backing of large commercial enterprises, gems are not as well marketed as diamonds. The UK's Gemfields plc, which owns the rights to mine emeralds in Zambia, has recently embarked on a marketing campaign for the green stone. In contrast, De Beers has long marketed diamonds to couples through its iconic slogan "A diamond is forever".

Nevertheless, the value of the finest gems can far exceed that of a diamond of a corresponding quality. This is especially true of fine rubies, with larger sizes commanding exceptionally high prices. Fine deeply coloured rubies of 3-carats or more are a great rarity, although it is not unusual to come across diamonds of such sizes.

MORE OF A COLLECTABLE

Investing in gems is largely an art based on passion and knowledge. There are no rules or benchmarks. Unlike diamonds, there is no universally accepted grading system or established pricing system. Since supply is erratic, finding investment grade stones requires some luck and a lot of patience. Furthermore, a growing number of treated and synthetic stones in the market make it difficult for the inexperienced to identify genuine natural gems.

Anyone considering buying gems with the intention of reselling them in the future needs a fair amount of knowledge. Buying gems is akin to assembling and acquiring a collection of paintings, stamps and antiques, says Henry Ho, founder and chairman of the Asian Institute of Gemmological Sciences. Some may also want to consider using a reputable expert such as a gemmologist or rely on a lab report such as those from the GIA to verify authenticity.

Ho also advises potential investors to devise an investing strategy. "Are you willing to dabble in stones that have no real demand but, with ingenuity and creativity, [you can] add value to them and sell them? Do you want to flip your gems for a small margin and do this many times over? Are you going to travel to remote places to find gems? Choose an area of trade that is not too crowded. Then, be different and daring but know that the

FAMOUS GEMS

THE ROCKEFELLER SAPPHIRE

This flawless 62.02-carat, rectangular cornflower-blue sapphire mined in Myanmar is considered to be one of the finest gems in the world. It is the most expensive sapphire in the world — carat-wise and in total price — after selling for over US\$3.3 million at a Christie's auction in New York in 2001. The last Nizam of Hyderabad was said to have sold this gem to John D Rockefeller in 1934.



ELIZABETH TAYLOR'S PERFECT RUBY

Hollywood star Elizabeth Taylor's jewellery collection was sold in 2011, also at a Christie's auction. It included a ring with an 8-carat ruby set with diamonds given to her by her then-husband Richard Burton in 1968. The ruby, mined in Myanmar and described by Burton as "perfect", was auctioned off for US\$4.2 million.



PRINCESS DIANA'S ENGAGEMENT RING

The oval sapphire engagement ring that Prince William inherited from his late mother and gave to Kate Middleton in 2010 is among the most famous in the world. The diamond-encrusted, 12-carat sapphire ring reportedly cost Prince Charles £28,500.



PIGEON'S BLOOD RUBIES

Rubies from Myanmar can fetch a premium for their clarity, quality and colour. The best rubies are pure red and are called "Pigeon's blood" rubies. These extremely rare stones are not found anywhere outside Myanmar. "Asking to see a Pigeon's blood ruby is like asking to see the face of God," writes Richard Wise, gemmologist and author, on his blog. ■



risk of losing all your money and being stuck with unsold gems is a common reality."

Like gold, gems do not pay dividends. As an investment, it is more illiquid than gold. "Gold is a homogenous commodity that is easily purchased and easily sold on a daily basis. Gemstones are unique. No two pieces are alike. They are rarer and more portable. You can put a gem valued at US\$1 million in your pocket and walk away but you can't do that with gold of the same value," says Ho. This means that buyers need to be able to hold their gems for the long term.

The best investments are in the high end of this market, the finest natural stones of several carats, say gemmologists. "These are stones in the top, top category, valued at at least half a million or a million greenbacks, says GIA's Shor. Demand for the finest gems is always there and an investor can always find willing private buyers or buyers through auctions such as Christie's that sold the Martian Pink and The Etcetra.

"If the auctioneer is excited about the gem, the market will be excited. And clearly, only the finest, most rare gems will get the auctioneer to dedicate a large write-up to the gem or maybe even put it on the cover of its auction catalogue," says Wise.

Such high-valued stones tend to be traded along with an independent valuer's report such as that from the GIA, adds Shor. This report confirms that the stones are not synthetic, have not been treated and offer a probable country of origin. Such lab reports address concerns surrounding the identity and authenticity of the gem.

Treated gems generally trade at lower prices than natural ones. According to Linda Rosen, president of the International Gem Society (IGS), some treatments such as heating for sapphires or oiling for emeralds have become generally accepted practice. "That said, an unheated sapphire will fetch a higher price than a heated sapphire. Nevertheless, the notion that the gem's colour came out of the ground is attractive to many collectors."

WHO AND HOW MUCH?

Synthetic stones have always been an issue in the gem trade. Those buying gems must also be aware of the latest "treatment" of gems such as irradiation, coating, cavity filling, heat and new dyes, and be aware of the reporting criteria and comments from different laboratories, says Wise. Having travelled to many gemstone mines around the world, he has found the most concentrated source of synthetic stones at natural stone mines, where scammers look for uninformed and eager buyers.

This is why the reputation of the source of gems is of utmost importance. "Choose a supplier as you would choose a doctor or a lawyer and ask and check on references," advises Ho.

There is no universally accepted grading system for gemstones. According to Wise, the best quality stones are "translucent with fine colour in their purest form and very

"Buy for beauty, for self-satisfaction, for pleasure and pride of ownership. Buy as a hedge, as a way of preserving capital. Buy as a gift for loved ones and for special occasions." — **Ho**

"Unlike gold and diamond deposits, the deposits for gems are fairly small and can be exhausted in two to three years. So, it is not commercially viable for large companies to invest in and develop these mines." — **Shor**

"People are getting interested in things like amethyst and aquamarine, but on a much smaller scale. Trends are like fashion, sometimes it stays for a long time, sometimes not. This makes gemstones quite an unpredictable market." — **Poli**





GETTING STARTED

Those interested in learning more about gems are advised to visit gem and jewellery associations and to stay abreast of the latest news in the gem industry. Gem associations that provide research and updates are the International Gem Society (IGS) and The Gemological Institute of America (GIA).

IGS (www.gemsociety.org) provides resources to help its members identify different stones and assess their profile. It offers an online gemology course, news and technical guides. Members are those in the trade, connoisseurs and gem collectors.

GIA is a non-profit institute that aims to be a resource on

gem knowledge. In the 1950s, it created the international standard for describing diamond quality: the 4Cs (colour, cut, clarity and carat weight) and the GIA International Diamond Grading System, which is now recognised by jewellers around the world. GIA has a presence in 17 cities. (<http://www.gia.edu/>)

Henry Ho, founder and chairman of the Asian Institute of Gemmological Sciences, suggest that newcomers attend the top gem fairs to learn more and network. His five suggestions are:

1 Tucson has an annual gems and minerals show attended by dealers from all over the world. There is a widest assortment of gems, crystals and minerals. "Attendees are miners, big and small dealers, craftsmen,

bead makers, collectors, cutters, instrument and tools manufacturers and distributors. It is a real mix of visitors," says Ho. (www.visitucson.org)

2 JCK Jewellery Fair is the US' largest annual show featuring thousands of dealers. According to Ho, attendees can find watches, jewellery, diamonds, loose gems, display and packaging, equipment and tools. "Retailers, manufacturers, wholesalers, large chain stores, gem lovers, gem experts, gem labs and the press all meet up in this lively and animated city." (www.jckonline.com)

3 The annual fair in Basel is the ultimate show in luxury watches and jewellery. All leading global brands will dazzle with glitter and brilliance. It is similar to the JCK Fair but with more

international participants and attendees. Ho says this is a must-visit. (www.baselfair.com)

4 The Hong Kong Jewellery and Gem Fair is Asia's foremost jewellery event. Hong Kong is known for ease of travel, doing business and seamless financial transactions. "The fair is duty free and little paperwork is required for importation and exportation. It is another show that you cannot miss," says Ho. (www.jewellerynetasia.com)

5 The Bangkok Gems and Jewellery Fair specialises in loose stones and jewellery. "Thais have nimble hands and create finely detailed art and craft. At this fair, you can fill your inventory with colour gems and mid-range jewellery," says Ho. (www.bangkokgmsfair.com) ■

hard (between eight to ten on a Mohs scale, which estimates scratch resistance through the ability of a harder material to scratch a softer material).

In the gems trade, beauty drives demand and rarity drives the price. In almost all cases, the rarer stones will fetch a higher value if there is demand. "Unless the item is in demand, then its actual rarity doesn't matter very much. Fine amethyst is actually quite rare, yet due to relatively lacklustre demand, its price remains relatively low. Things really get interesting when a gem is both apparently and actually rare. These are stones that are in short supply and also in high demand. Alexandrite and blue diamond are good examples of gems that are both apparently and actually rare. Gems that fall into this category will command the very highest prices," says Wise.

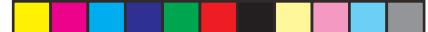
Poli, owner of Poli Designs Sdn Bhd, a jewellery designer, offers an example of the price differential between smaller and larger stones: "The price varies according to the size, colour and cut of the stone. For example, peridots are cheap when they are small in size, but when it gets to a carat and above, the price picks up a little bit, and that's because it's rare. Prices can range from RM10 or RM20 per carat and go up to thousands of ringgit."

Demand is largely based on sentiment for a stone and can be influenced by fashion trends. "In Japan about two years ago, pink stones were sought after, whether it was

pink sapphire or tourmaline. Prices of pink stones went up and it's still quite trendy. In Malaysia, people still aren't so big on gemstones. Their main thing is diamond and gold. Recently, it's been South Sea pearls. But some coloured stones are gaining popularity. People are getting interested in things like amethyst and aquamarine, but on a much smaller scale. Trends are like fashion — sometimes it stays for a long time, sometimes not. This makes gemstones quite an unpredictable market," says Poli.



OCTOBER 2013 PERSONAL MONEY



DIAMONDS VS GEMS

THE GEM industry is more diverse but much smaller and under-developed than the global diamond industry. It is also a "freer market", which is ideal for buying opportunities and remarkable profits.

Sales of gems are said to be only a fraction of the US\$70 billion international diamond trade. News reports say about US\$13 billion worth of diamonds, mostly mined in Africa, are produced a year. According to Bain & Company, a US management consulting firm, 133 million carats of rough diamonds are produced globally every year.

In *Secrets of the Gem Trade*, Richard Wise writes: "In the case of diamond, an apparent rarity maintaining the price structure is created by high demand coupled with a carefully controlled distribution system... Thus, the price of diamonds, as with all other gems, is based on beauty and [the laws of] supply and demand. The difference is that demand for diamonds is mightily stimulated by advertising, and supply is, or at least has been, ruthlessly controlled by the De Beers cartel."

De Beers Group, a privately-held company based in Africa, no longer controls the bulk of the world's diamond supply. Now, there are four large diamond miners in the world: De Beers, Alrosa, Rio Tinto and BHP Billiton. The last two are listed on the New York Stock Exchange while Alrosa was established by the Russian government. More supply in the market will squeeze wholesale

and retail profit margins and ultimately lead to lower prices for diamonds.

In contrast, gems are largely mined by small artisanal miners and located in emerging, less-developed countries such as Madagascar, Tajikistan, Colombia and Myanmar. According to Russel Shor, senior analyst at Gemological Institute of America (GIA), these mines are generally small, with deposits that can be mostly extracted within two or three years.

Gemfields plc, a UK company listed on the London Stock Exchange, has announced intentions to secure rights to a large percentage of the world's production of major gems and to introduce modern mining processes. This is to create a more predictable supply of gems, which will assist in stabilising and establishing prices. Gemfields has also embarked on a marketing campaign to promote coloured stones. It says it already produces 20% of the world's supply of emeralds, mined from Zambia, and 40% of the global amethyst supply. It has also started producing rubies from Mozambique.

TanzaniteOne Mining Ltd is another company that is looking to control a portion of the global gem market. It focuses mainly on tanzanite mined in Tanzania, near Mount Kilimanjaro. Celebrated jeweller Tiffany & Co Ltd introduced this rare dazzling blue stone in 1968, saying it is "the most beautiful blue stone to be discovered in 2,000 years".

Both Wise and Shor, as well as many other industry observers, agree that it would be very difficult to control the world's gem supply. "It is very difficult to control this market. Years ago, some Thai companies tried to control the supply of rubies and sapphires, mostly mined in Myanmar. There wasn't any

other company or anyone else that was trying to do that. I won't say they were successful but neither would I conclude that they failed since they do control a small percentage of the trade," says Shor.

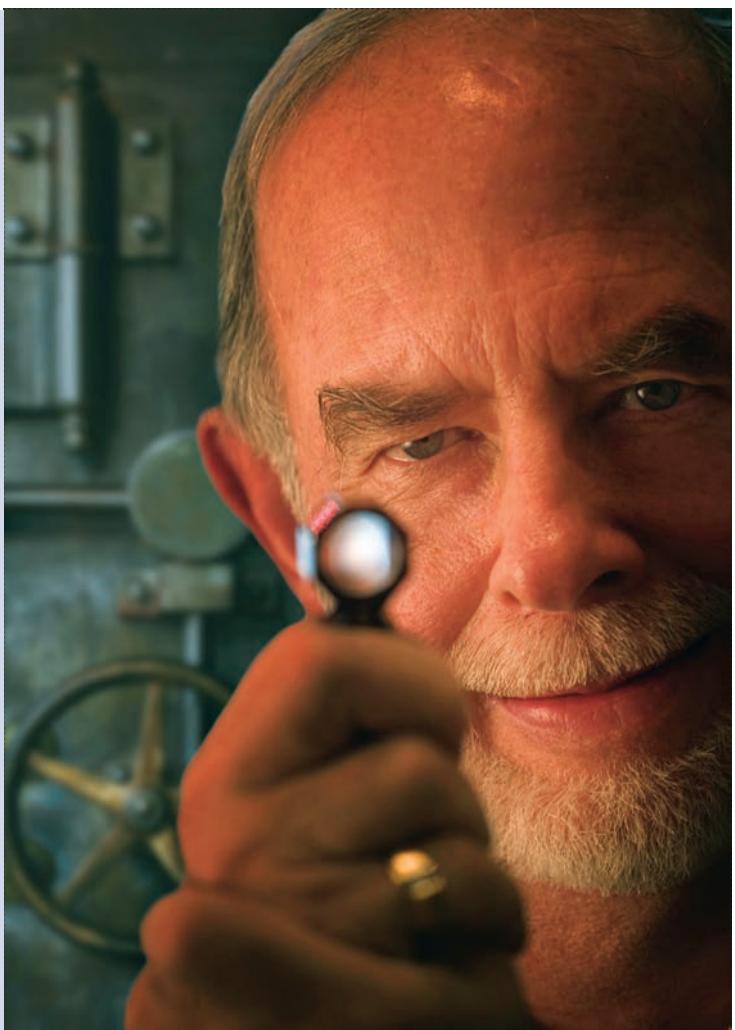
The lack of commercial viability means that the gem market should continue to operate as a free, fragmented market that is not dominated by one or a few companies. "Companies like TanzaniteOne and Gemfields will have limited success if they only control one source of gems. There is limited financial incentive, no return on investment, to invest a large amount of capital in a ruby or tourmaline mine that is typically small. There just isn't enough supply to make a profit," says Wise.

As the gems market is free, it has the best buying and return-on-investment opportunities. Auctions such as Christie's and Sotheby's are seeing more retail buyers instead of mostly wholesale buyers. This promotes the price discovery process as bidders compete against each other.

Another key difference between diamonds and gems is the primary determinant of value. For diamonds, this is its cut. Diamonds are meant to sparkle and deliver brilliance or "fire". This is created in the cutting process whereby the cutter attempts to retain the most weight from the stone while unlocking its brilliance through a precise cut. The more mathematically precise the diamond's cut, the stronger its fire.

For gems, the purity and beauty of colour determine quality. For example, for emeralds, old mine stones (those mined during the 16th and 17th centuries in Colombia) are priced for their pure green hue and a honey-like quality of transparency. This quality, says Wise, can be seen when comparing them with very fine crystalline emerald mined recently. "They [old mine emeralds] do indeed exhibit a thick crystalline quality reminiscent of light passing through honey or oil," he writes in an article, "Pricing the Crème de la Crème of Gems". ■





"All colours are created equal. Yet, a fine blue sapphire commands a much higher price than a fine yellow sapphire. This is purely a function of subjective preference, which manifests itself as market demand." — **Wise**

There is also the danger of paying retail prices for a gem only to sell it at a wholesale price. This is due to the many mark-ups that buyers have to pay when buying a gem from the retail market. "There are many hands that 'touch' a stone before it gets into the hands of an investor — the miner, the cutter, buyers for large companies such as Tiffany and Co, gem dealers and retail buyers/collectors. Each time the gem is touched, the price goes up because each player adds his margin, marketing, sales and other overhead costs. A successful trader will know how to circumvent some of those players, or at least understand how a stone should be priced accordingly," says IGS' Rosen.

Alarm bells should ring if a beautiful stone is offered at an extremely attractive price. "The general idea is that if the stone looks really good and it's very cheap, something is wrong. Prices are usually based on the quality of the stone.

Mohd Izwan Mohd Nazam

GEMMOLOGY LINGO

Inclusion This refers to flaws or material found inside a gem

- **Water**

This is a grading of a gem's lustre and/or transparency and/or brilliance. Gems or diamonds that are very clear are considered as "first water". The "second water" and "third water" grades refer to stones that are not as clear and thus, not as valuable.

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Precious and semi-precious gems

These are groupings that are no longer relevant. Regardless of the type of stone, if it is rare and beautiful and demand is strong, it is considered to be precious, says Richard Wise, gemmologist and author.

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Rare or unusual gems

These are so scarce and relatively unknown except to connoisseurs, such as andalusite, axinite, cassiterite, clinohumite and red beryl. ■

So it's either fake or something has been done to it," says Poli.

Therefore, buyers must be knowledgeable and lucky to find a value buy, an authentically fine gem that is priced below retail. "Buying is about knowing more than the seller and the absence of a competitor," says Ho.

"You must invest only if it is a value buy [lower than retail prices]. You never know what the selling price is. Gem trading is a highly competitive market. When you decide to sell your gem, you can be competing with wholesale gem traders. Usually, it is the guy who sells at the lowest price that wins," says Shor.

DOES THE SOURCE MATTER?

In the gem marketplace, a fine stone with a famous pedigree will command an extraordinary premium. A natural sapphire from Burma will often sell for twice the price of a comparable gem from Sri Lanka. "The country of origin is something that the market appreciates. For example, they like rubies from Myanmar, emeralds from Columbia, sapphires from Sri Lanka as well as Kashmiri sapphires, which are velvety blue when the light hits them," says Shor.

Wise warns against paying a premium for the stone's country of origin. "Does the beauty of this stone from this source justify paying a premium price? The answer generally may be yes, if the best stones from the area in question are truly the best of their kind. However, it is important to stay focused. The aficionado collects gems, not generalisations. The gem under consideration must be judged for what it is — its beauty, not its geographic origin."

It is also hard to determine exactly where the gem comes from. Labs such as GIA attempt to give a probable country of origin. This means that suppliers may not have an idea of where the gems come from and their claims cannot be verified. ■