



Are diamonds a good investment?

A diamond future index will soon be open for trading. However, investing in the gem comes with a set of issues.

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If you have always wanted to buy diamonds, but assumed it was beyond your means, there's good news for you.

Soon, you could own high quality diamonds by investing as little as ₹900 a month for about two and a half years. The Indian Commodity Exchange (ICEX), which recently got Sebi approval to start the world's first diamond trading bourse, will launch a systematic investment plan (SIP) for retail buyers to acquire the precious stones. It sounds good, but should you opt for it?

How the SIP will work

To invest in the diamond SIP scheme, you have to open an account with a broker on the ICEX, complete the KYC process and deposit some money. The ICEX is starting trading in diamond contracts of three different sizes: 30 cents, 50 cents and 100 cents (1 carat). At current prices, a 30-cent diamond costs around ₹27,000, or close to ₹900 for each cent of its weight. By paying ₹900 every month through the SIP, you can acquire a physical diamond at the end of two and half years.

Ease of investing

Traditionally, diamonds haven't been part of most people's investment portfolios. "Investors look for two basic things: returns and exit route," says Sanjit Prasad, CEO of the ICEX. In the case of diamonds, neither of these factors appears particularly favourable. Over the past five years, diamonds haven't appreciated across the board. Given the absence of an organised resale mar-

ket, investors have also been unable to exit the market easily so far. The diamond index is likely to ensure that investors can enter and exit the market in an organised manner.

Better as a consumable

Jignesh Mehta, Founder and Managing Director at Divine Solitaires explains, "As a retail investor, you should not invest in diamond for investment purpose to make profit but align consumption goals like giving your wife a diamond ring on your 25th wedding anniversary." There's no guarantee that diamond prices will rise steadily even as trading on the exchange picks up.

Transparency troubles

There has always been a lack of transparency about the resale value of diamonds. Earlier, the buyback policy of your jeweller determined how much of your investment you could get back, especially when it came to smaller diamonds.

The exchange platform promises to eliminate most of this confusion. Trading will be carried out at wholesale prices, which is currently 30-35% lower than retail prices. So, if you are willing to invest in a diamond worth ₹1,00,000, you can get a gem of the same value for as low as ₹75,000 on the ICEX. An additional benefit is that the diamond you will receive will be DeBeers certified.

What happens if you are unable to pay for subsequent monthly SIPs after the initial investment? Just like shares, your holding of diamonds already bought in previous months will continue to remain in your dem-

at account. You can resume buying when you choose. You will also be allowed to sell the diamonds already in your account on the ICEX at any time in the duration of the SIP, at the prevailing market price.

Diamonds over gold?

An obvious parallel that emerges in this context is that of investing in gold. How do diamonds match up to gold? Over the past five to seven years, the compounding return from gold and diamond has been nearly equal. Indian investors are more inclined to invest in gold, given a choice between the two, simply because they assume it will get them higher returns. Bagrecha says, "Buyers will shift their investment from gold to diamonds only if they see better price stability and profits." However, it's not advisable to replace gold with diamond in your overall portfolio. Rahul Jauhari, Commercial Director, India, for a leading diamond certification company, says, "Investors need to diversify their portfolios based on future consumption and how it aligns with their goals, not the past returns offered by a product alone."

Will it pay off?

"Consider the possibility of tighter liquidity while trading on ICEX platform. Also, the absence of precedent makes it difficult to gauge the depth of the market," says Jauhari. Mehta concludes, "If you want to make a profit from your investment, choose financial assets like mutual funds over diamonds."

Partha Sinha & Hiral Thanawala

Less than promising performance

In the past five years, diamonds have not appreciated significantly.

	DIAMOND (PER CARAT)	GOLD 995 (MUMBAI) (10 GRAM)
1 YEAR	-6.4%	-6.4%
3 YEARS	-4.6%	2.1%
5 YEARS	0.2%	-0.1%
7 YEARS	8.3%	8.3%
10 YEARS	6.1%	14.5%

Source: Divine Solitaires for diamonds; Compiled by ETG Database for gold. Returns calculated as on 14 Aug 2017.

Where do diamonds stand?

Diamonds rank 7th among luxury assets people want to invest in.

RANK	LUXURY ASSETS	PRICE GROWTH IN 1 YEAR	PRICE GROWTH IN 10 YEARS
1	Wine	24%	267%
2	Cars	9%	457%
3	Coins	6%	195%
4	Watches	4%	66%
5	Jewellery	3%	147%
6	Stamps	1%	133%
7	Coloured diamonds	0.4%	111%
8	Furniture	-5%	-31%
9	Chinese ceramics	-14%	6%
10	Art	-14%	139%

Price growth calculated till 30 Dec 2016. Source: The Wealth Report 2017, Knight Frank.