



MarketWatch

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Diamonds may add sparkle yo your portfolio

By Monica Gutschi

TORONTO (MarketWatch) -- Like other hard assets such as gold, silver and real estate, the price of diamonds has been soaring in recent months.

Polished-stone prices have risen 7% in the first quarter of this year, according to RBC Capital Markets, while rough-diamond prices, which rose 26% in 2010, gained another 10% in the first three months of this year.

Demand from emerging middle classes in key markets such as China and India is playing a role. Indeed, China is already the second-largest global market for polished stones, and in India, sales of diamond jewellery rose 30% last year.

With demand growing but supply constrained by the absence of any major new mine development in the past decade, diamond bulls argue prices are likely to continue pushing higher for some time.

"The fundamentals are very supportive," says John Stephenson, senior vice-president of First Asset Investment Management and author of "The Little Book of Commodity Investing."

Proponents of diamonds as an asset class argue they provide a hedge against inflation, show low volatility, and can be used as a currency alternative like gold.

"People want these tangible things that are a store of wealth," Stephenson says.

But unlike gold, for example, investing in diamonds may take a bit of creativity.

Most investors can't easily buy the raw material. It requires deep pockets, access to diamond exchanges and substantial knowledge about diamonds--such as cut, clarity, color and carat.

There aren't any diamond-focused mutual funds (in Canada, at least), and no diamond ETFs. There is a diamond investment fund recently launched by Zurich-based Diamond Asset Advisors and supplied by Harry Winston Diamond Corp. (HWD, HW.T), but it is available only to large institutional investors.

About 80% of the global diamond market is controlled by a handful of major companies, of which the largest are privately held. Alrosa, which controls 25% of the world's rough-diamond supply, is owned by the Russian government. De Beers, with 35% of the market, is partly owned by global miner Anglo American, which also has interests in iron ore, coal and platinum.

Most of the world's largest diversified miners do have some diamond operations, including Rio Tinto and BHP Billiton, both of which own diamond mines in Canada. But diamonds are a very small part of their total operations.

There are very few pure diamond plays available in the large or mid-cap space outside of Canadian diamond miner and retailer Harry Winston. It has benefited from the bullish outlook for diamonds: its shares are up 46% so far this year.

Those who wish to venture further afield could consider London-based Gem Diamonds Ltd. (GEMD.LN, GMDF), or Petra Diamonds Ltd. (PDL.LN), which purchased some of De Beers former flagship assets.

And investors who opt to gain exposure to diamonds at the upper end of the production chain can look at retailer Tiffany & Co. (NYSE:TIF) , which trades in New York and online diamond retailer Blue Nile Diamonds, which trades on the Nasdaq.

But Canadian investors hoping to get in on the global diamond boom at the bottom of the chain may have to sort through the growing array of junior miners active in the space, most of which trade on the Toronto Venture Exchange.

The challenge for these companies is that most operate in hostile, northern environments, says Garreth Elston, managing director of capital-markets consultancy Golden Section. That makes the initial exploration time-consuming and expensive. As well, he notes, costs are rising as the many have exhausted the potential of open-pit mining and are now looking for underground deposits.

Nevertheless, he says investors have plenty of options, if they do their due diligence.

Companies that list on the Toronto Stock Exchange include Peregrine Diamonds Ltd. (PGD.T), Shore Gold Inc. (SGF.T) and Stornoway Diamond Corp. , all of which are exploring in Canada. Rockwell Diamonds Inc. (RDI.T), BRC DiamondCore Ltd. (BCD.T), and Diamond Fields International Ltd. (DFI.T) operate in Africa.

No less than 14 diamond miners trade on the Venture exchange, Elston notes, most operating in remote areas of Canada.

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