Seed Global

One of the most iconic advertising slogans in history is "*a diamond is forever*". While this phrase may speak to the enduring physical properties of diamonds, it does not necessarily imply that these sparkling gemstones are a wise investment choice.

In this article, Ian De Lange Seed Chief Investment Officer, explores ***whether Diamonds Are a Wise Investment.***

Follow Ian on X

A Diamond is Forever…
But is it a Wise Investment?

Most diamonds sold at the retail level lack any genuine scarcity. This perception of diamond scarcity was carefully crafted over the last century by De Beers Consolidated Mines and their global distribution arm, the Central Selling Organization (CSO). Through tight control of a significant portion of global diamond distribution, coupled with a growing stockpile and a brilliant advertising campaign, De Beers successfully maintained a delicate balance between supply and demand - while generating excellent profitability.

One important test for any investment lies in its ability to be resold at a reasonable price in the market. When it comes to diamonds, however, there is a substantial disparity between the retail selling price and what can be realized in the second hand market due, in part, to limited liquidity. Furthermore, diamonds lack uniformity, which means that they are not fungible (each stone has unique qualities that need to be assessed).

Many investors look to allocate a portion of their wealth into alternative assets. But, like diamonds, **where these are non-income producing**, they face an extra hurdle in an environment with higher interest rates on cash. Some of these "investments" may even yield negative returns, further diminishing their allure – take for example expenses such as rates on unproductive land.

Examples of non-income producing assets that investors often consider, include:

- **Unproductive land or property** - Fixed property that generates no yield
- **Holiday homes** - Properties used primarily for leisure purposes
- **Commodities, including gold** - Precious metals and raw materials
- **Life insurance product** - With a fixed surrender value
- **Collectibles** - Valuable items such as fine art, wine collections and luxury goods (diamonds)
- **Digital assets** - Cryptocurrencies like Bitcoin

It's important to note that not all non-income producing assets should be dismissed as poor investments. In fact, some of the mentioned assets have performed exceptionally well in the past decade. However, as with any investment, it is crucial to exercise caution and conduct due diligence – always bearing in mind the age-old adage:

Caveat emptor, let the buyer beware.

Ian De Lange CA(SA)
Chief Investment Officer

If you have any questions, please do not hesitate to reach out to Ian and our team. Ian always enjoys a good chat about global or alternative investments.

We welcome you to reach out to us directly on global@seedinvestments.co.za.

Follow Ian De Lange on Social Media