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From London
Became Diamond
Merchant To
The World's
Super Wealthy

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Laurence Graff
and his 103-carat diamond

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The Harder They Come

YOU WANT A ROCK-SOLID INVESTMENT? CONSIDER A CLEAR AND crystalline lump of carbon. For a 1-carat D flawless piece, a benchmark in the diamond trade, the wholesale price comes to \$14,480. That's \$33 million a pound. The rarer stuff featured in Susan Adams' cover story (see p. 84) is worth seven times as much per carat. A denser concentration of dollars is hard to find.

In the inflationary blowup of the late 1970s, diamonds were the subject of considerable investment fervor. In the postinflationary 1980s they crashed. Now, after a long slumber, the speculators are back. There is talk in Antwerp of giving the market more transparency and liquidity via a futures contract. By this mechanism diamonds might conceivably take their place alongside stocks, bonds and cash in a balanced portfolio. Rocks would have a particular sparkle for someone brooding about inflation.

Donald Palmieri, a gem certifier and market analyst (and source of the pricing data used in the chart), is skeptical of the idea, and not only because

he was himself burned in the 1981 diamond crash. Make diamonds into a commodity? Doesn't that, he wonders, diminish their mystique and their allure? Mystique is worth something. A diamond engagement ring has no more functionality than a peacock's feathers.

But it has mystique, and it has great value as a signaling device.

Jewelers have their own reason not to like the idea of making diamonds an investment and publishing prices alongside the stock tables. Transparency would shine an unpleasant light on their markups.

Now let me offer a third reason why diamond investing is a bad idea. A bet on hard assets is a bet against human ingenuity. A stockpile of oil, gold or diamonds is a bet that people will not be imaginative about uncovering natural resources, or using them more efficiently, or inventing synthetic substitutes. A bet on stocks is a bet in favor of ingenuity.

Ingenuity triumphs. If you had bought stocks 35 years ago you would have multiplied your wealth ninefold—this despite inflation and despite the ferocious bear market near the beginning of your adventure. Diamonds would merely have held their own as a store of value. In providing a real return, something you can live on, diamonds are a dud—unless you use one on a ring.

William Baldwin
EDITOR

Investment Grades

Real total returns, January 1972 = 100.



Values include dividends and are net of inflation. *Wholesale prices for 1-carat D-clarity internally flawless polished gems. Sources: S&P; Comex; Gem Certification & Assurance Lab; Forbes.

A.B.C.

ADT, 82
AIG, 104
Abbott Laboratories, 66
Aboulafia, Richard, 100
Accu-Rate, 40
Adler, Meredith, 104
AirlineForecasts, 100
Allen, Jeanne, 98
Amdocs, 106
American Airlines, 100
Apollo Group, 34, 104
Apple Computer, 93
AstraZeneca, 38, 66
AtheroGenics, 38
Auffenberg, James A. Jr., 76
AutoNation, 40
AutoZone, 38
BDO Seidman, 34
Bank of Nova Scotia, 104
Barbat, Saeed, 68
Barber, Jeffrey, 40
Barguirdjian, Henri, 89
Barton, Dave, 33
Bear Stearns, 108
Beckam, David, 86
Beckham, Victoria, 86
Berry-Hill Galleries, 50
Bertsch, Jonathan, 99
Bettinger, Marc, 55
Bigge, Stephen, 74
Biggers, W. Watts, 46
Biondi, Frank, 94
Black, Leon, 34
Blackmont Capital, 104
Blackstone Group, 104
Blockbuster, 94
Blumenthal, Karen, 22
Boggess, Trent E., 113
Boghossian, Boghos A., 82
Bon Dente International, 62
Broad, Eli, 99
Brooks, Michelle, 96
Buccafusco, Jerry J., 67
Buchanan, Robert F., 58
Burk, Kurt, 46
Burke, Thomas R., 49
Burrill & Co., 67
Bush, George W., 16, 31
Cartier, 86
Case, Steve M., 48
Chick-fil-A, 16
Christie's, 50, 89
Chubb, 82
Citigroup, 64
Citrix Systems, 100
Clark, Jim, 33
Clarkson, Kelly, 46
Coldwater Creek, 56
CoMentis, 66
Coniff, Steven, 112
Constellation Brands, 106
Coram, 50
Cordle, Vaughn, 100
CorVel, 40
Costco, 55
Crandall, Robert, 100

Crone, Robert, 21
Crown Business, 22
Cubic, 34
Curiel, Francois, 89
Cyrus, Billy Ray, 46
Cyrus, Miley, 46
D.E.F.
DaimlerChrysler, 52, 108
Danone Group, 46
Davidson, Jeffrey, 48
Davis Wright Tremaine, 49
DayJet, 100
De Beers, 87
DeBethizy, J. Donald, 67
Detroit International Bridge, 38
Dexheimer, Brian, 94
Walt Disney, 44, 46, 94
Druckrey, James, 93
Dubnansky, Matthew, 40
Ebay, 33, 58
Eclipse Aviation, 101
A.G. Edwards, 58, 104
Effinger, Thomas III, 113
Eisai, 67
Ellison, Larry, 86
Evault, 94
Feinberg, Michael, 98
First Data, 108
Fisher, Donald, 98
Fisher, Doris, 98
Flynn, Terence, 67
Ford Motor, 52, 68, 110
Fronk, Rudi P., 34
Frost & Sullivan, 82
Funk, Elizabeth Collet, 34

G.H.I.

Gap, 98
Gartner, 93
Gassman, Alan, 78
General Electric, 42
General Motors, 52, 110
Gibson Guitar, 93
Goldman Sachs Group, 33
Godard, Ivan, 42
Graff, Ann-Marie, 89
Graff, Francois, 89
Graff, Laurence, 85
Graff Diamonds International, 86
Greenberg, Maurice, 104
Hardeman, Bennett, 112
Harman Kardon, 94
Helfrick, John, 21
Hess, 106
Hewlett-Packard, 42
Hill, Frederick, 50
Hill, James, 50
Honda Motor, 52
Huckabee, Mike, 50
Huntsman, Jon M., 34
Huntsman, 34
Huson, Ken S., 113
IBM, 42
Jacobucci, Edward, 100
Jacobucci, NancyLee, 100
Ipsotek, 80

J.K.L.

J.Crew, 56
JPMorgan Chase, 74
Japan Tobacco, 67
Jazdcyk, John, 72
Jazdcyk, Susan, 72
Johnson & Johnson, 67
Kennedy, Diane, 33
Kent, Richard, 70
Kidd, Conor, 44
Kodak, 94
Konica Minolta, 99
Kroger, 104
LVMH, 87
LaFargue, Brianne, 96
Lazard, 67
Le Fever, Gary, 113
Learjet, 101
Lehman Brothers, 104
Levieu, Lev, 88
Levin, David, 98
Eli Lilly, 67
Long, Gavin, 82

M.N.O.

Malim, Andrew, 80
Manulife Financial, 106
Margolin, George, 42
Matlin, David J., 34
MatlinPatterson, 34
Meimaris, Natalia, 49
Melchiori, Mark J., 46
Memory Pharmaceuticals, 67
Michaels, Lorne, 46
Milton, Alan, 50
Milton, Philip, 50
Monroe, John, 93
Moore, Michael, 40
Morningstar, 50
Moroun, Manuel, 38
Motorola, 61
Netscape, 33
New Enterprise Associates, 67
Newsome, J. Paul, 104
Nice Systems, 82
Nordstrom, 58
ObjectVideo, 82
Omidyar, Pierre, 33
OneBrick Films, 46
Oracle, 42
O'Reilly Automotive, 58
Out-of-the-Box Computing, 42
Oxford Bioscience, 67

P.Q.R.

PPG, 106
Palm, 61
Palmieri, Donald, 14
Panasonic, 82
Peck, Ian, 50
J.C. Penney, 58
Pfizer, 67
Philips, 82
Pogo Jet, 100
Procter & Gamble, 72
Ramee, Kariem, 98
Rapaport, Martin, 87
RateMDs.com, 48
Red Hat, 42

Reid, Michael, 49
Retirementliving.com, 74
R.J. Reynolds Tobacco, 66
Rhodes, William, 38
Robichaux, Gary, 96
Rose, Andrew, 50
Ross, Richard, 44
Royal Bank of Canada, 104

S.T.U.

Safeco, 87
SageCrest II, 50
SanDisk, 93
Sanofi-Aventis, 67
Seabridge Gold, 34
Seagate Technology, 93
Sherwin-Williams, 106
Siemens, 82
Signal Hill, 104
Smith, J. Bradley, 104
Sony, 82, 94
Spitzer, Eliot, 104
Stanford Group, 55
Stern, Andrew, 50
Swapceinski, John, 48
Sweeney, Anne, 44
TMDG, 40
Targacept, 66
Target, 56
Taylor, Elizabeth, 86
Ann Taylor Stores, 56
Teal Group, 100
Texas Instruments, 82
Thomson Learning, 108
Tiffany, 55, 86
Toyota Motor, 52
Trump, Donald, 86
Trump, Melania, 86
Turki bin Abdul Aziz, 86
USBX, 82
UnitedHealthcare, 40
Urban Outfitters, 57

V.W.

Valspar, 106
Van Cleef & Arpels, 86
Velastin, Sergio, 82
Viacom International, 44, 94
Virchow Krause & Co., 74
VistaScape Security Systems, 82
Walgreen, 58
Wal-Mart Stores, 46, 50, 56, 94, 104
Watkins, William, 93
Webster, Garrard, 89
Webster, Stephen, 89
Weigandt, Don R., 74
WellPoint, 42
Wetzel, Thomas, 74
WiLife, 60
Winfrey, Oprah, 86
Winston, Bruce, 89
Winston, Ronald, 89
Winston, 86

X.Y.Z.

Yahoo, 34
Yelp, 49
Yucaipa, 89
Zable, Walter J., 34

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