

# Principal Companies



Polished Prices

[www.polishedprices.com](http://www.polishedprices.com)



WWW International Diamond Consultants

[www.diamondwww.com](http://www.diamondwww.com)



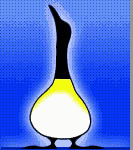
WWW Diamond Forecasts

[www.diamondsforecasts.com](http://www.diamondsforecasts.com)



Rough Prices

[Roughprices.com](http://Roughprices.com)

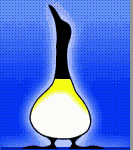


# Current State of the Market

- Falling Prices
- Liquidity Issues
- Structural Changes
  - Anglo Majority Shareholder
  - BHP/Rio selling up?
- Workers leaving Industry
- No new blood

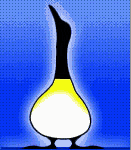


Clearest signs of a declining Industry

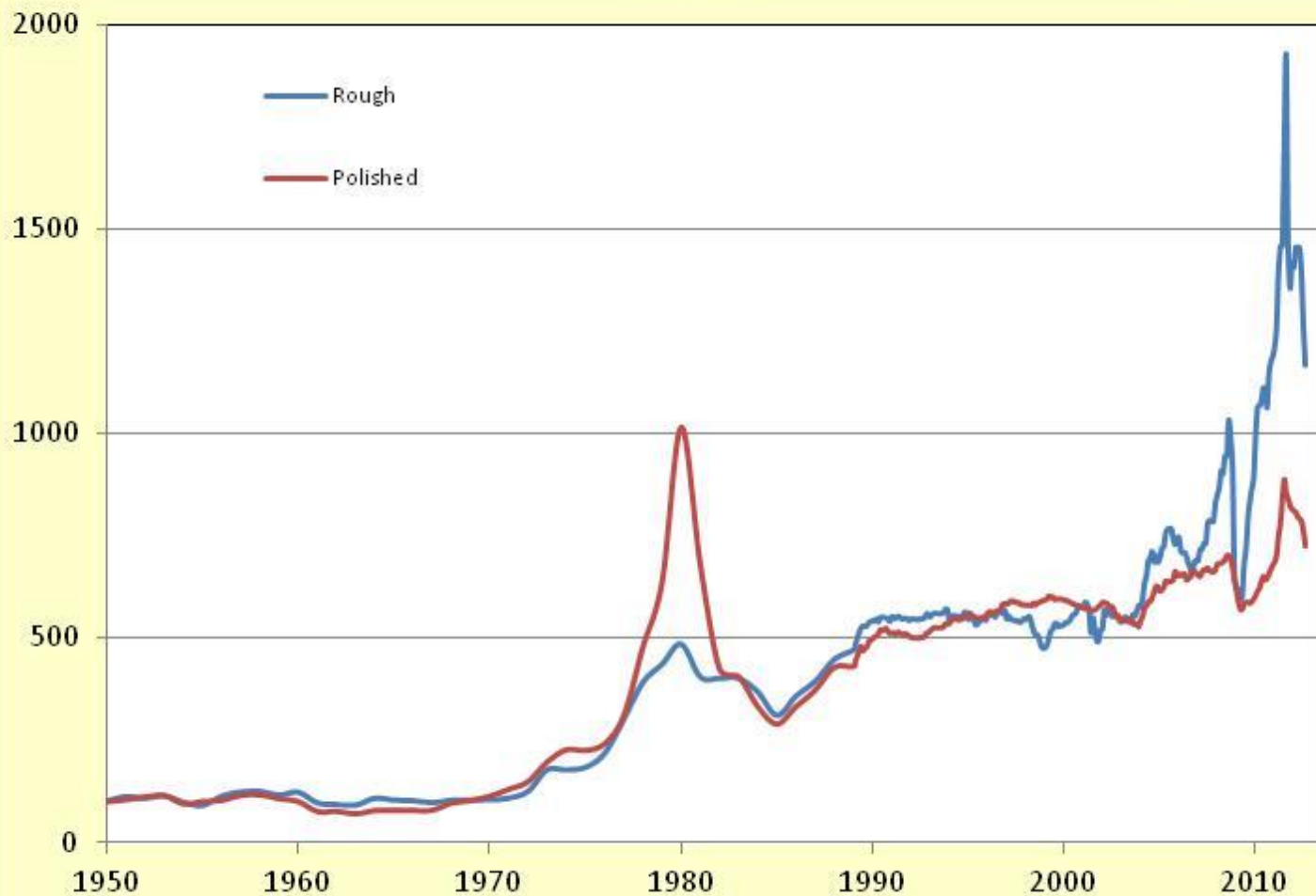


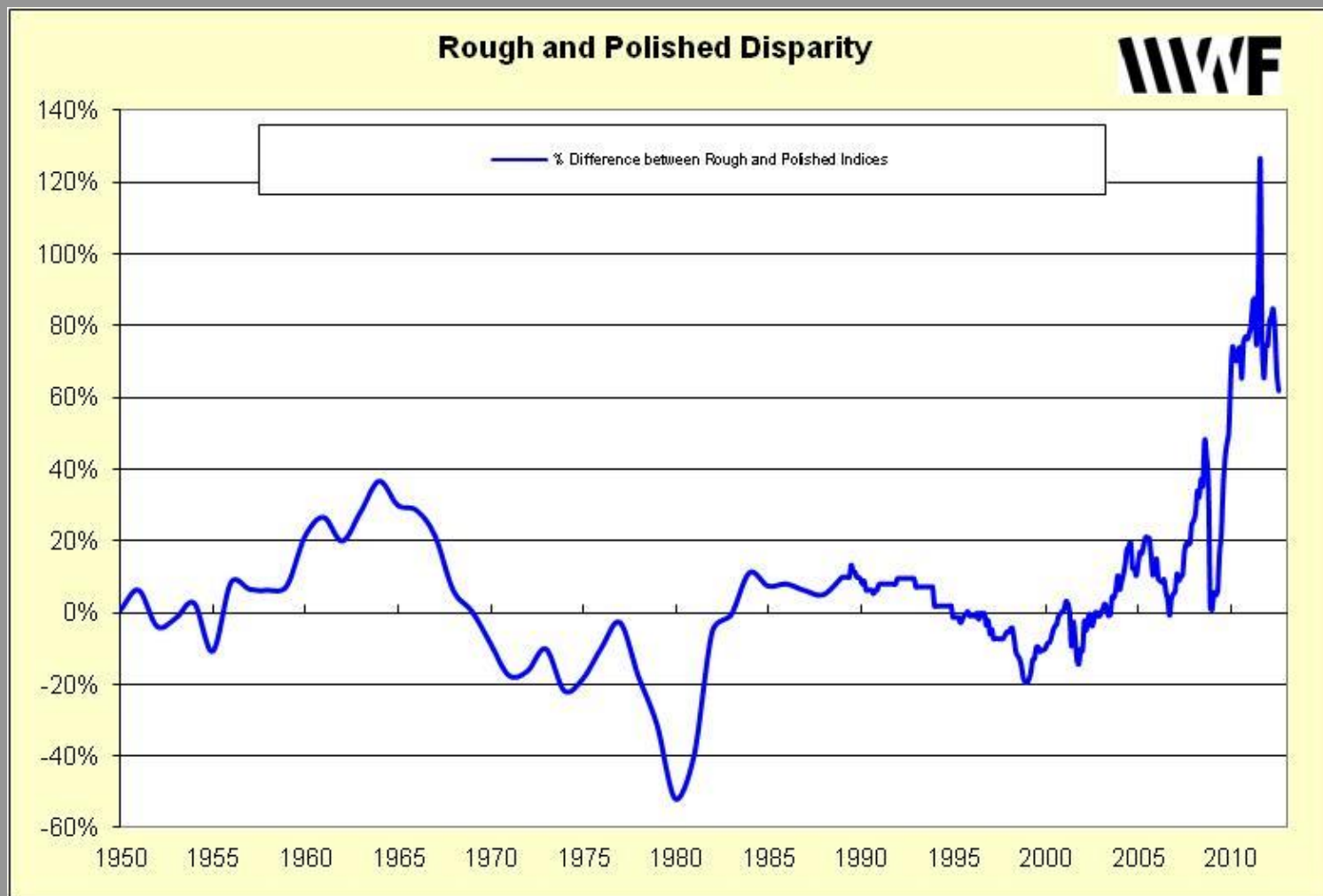
# Compare Polished Diamonds to

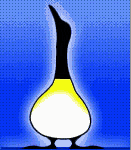
- Rough Diamonds
- Other Commodities
- Luxury Goods



### Diamond Prices since 1950 1950=100



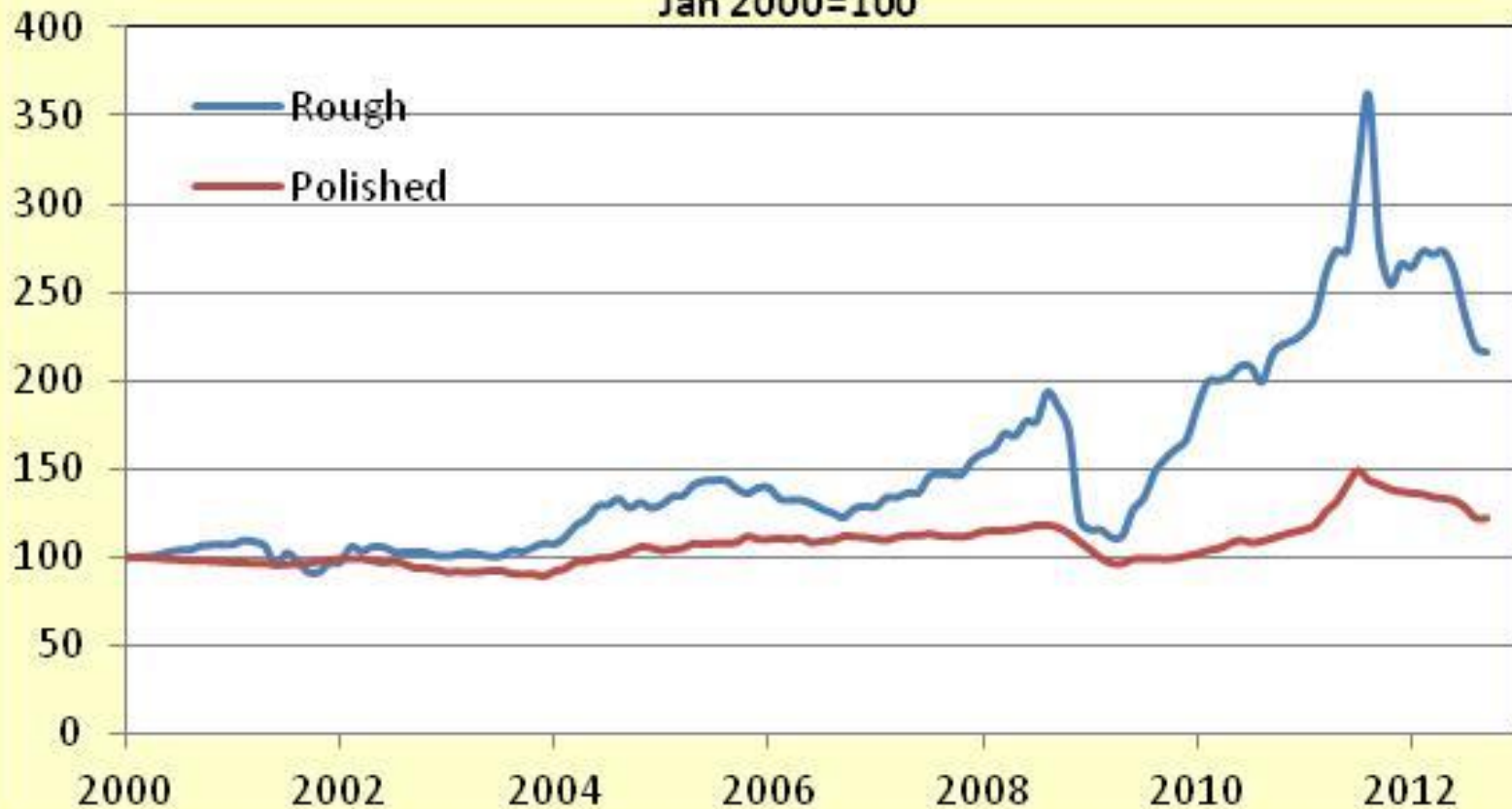


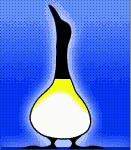


# Rough and Polished Prices

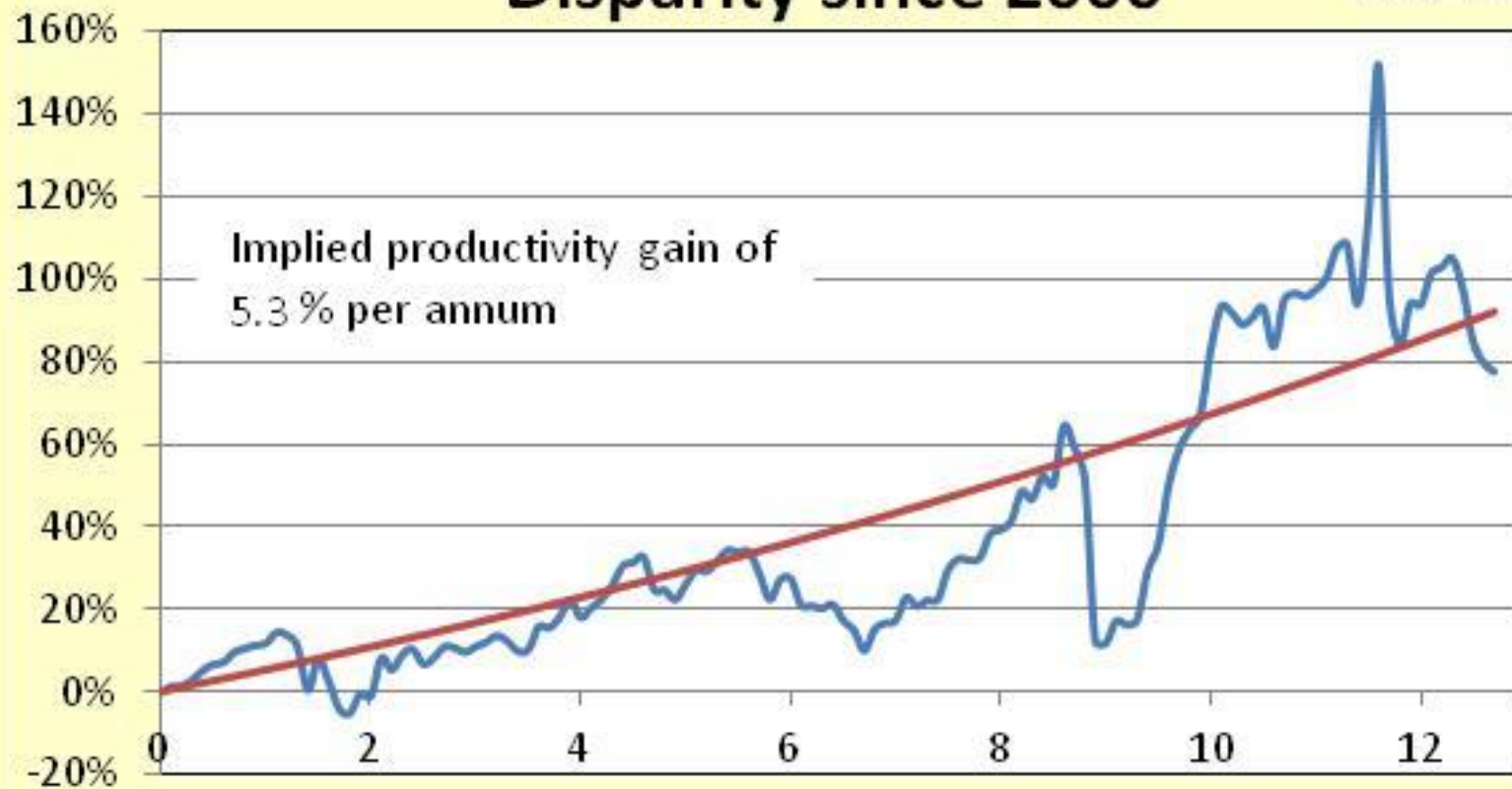


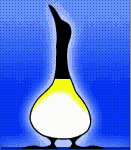
Jan 2000=100





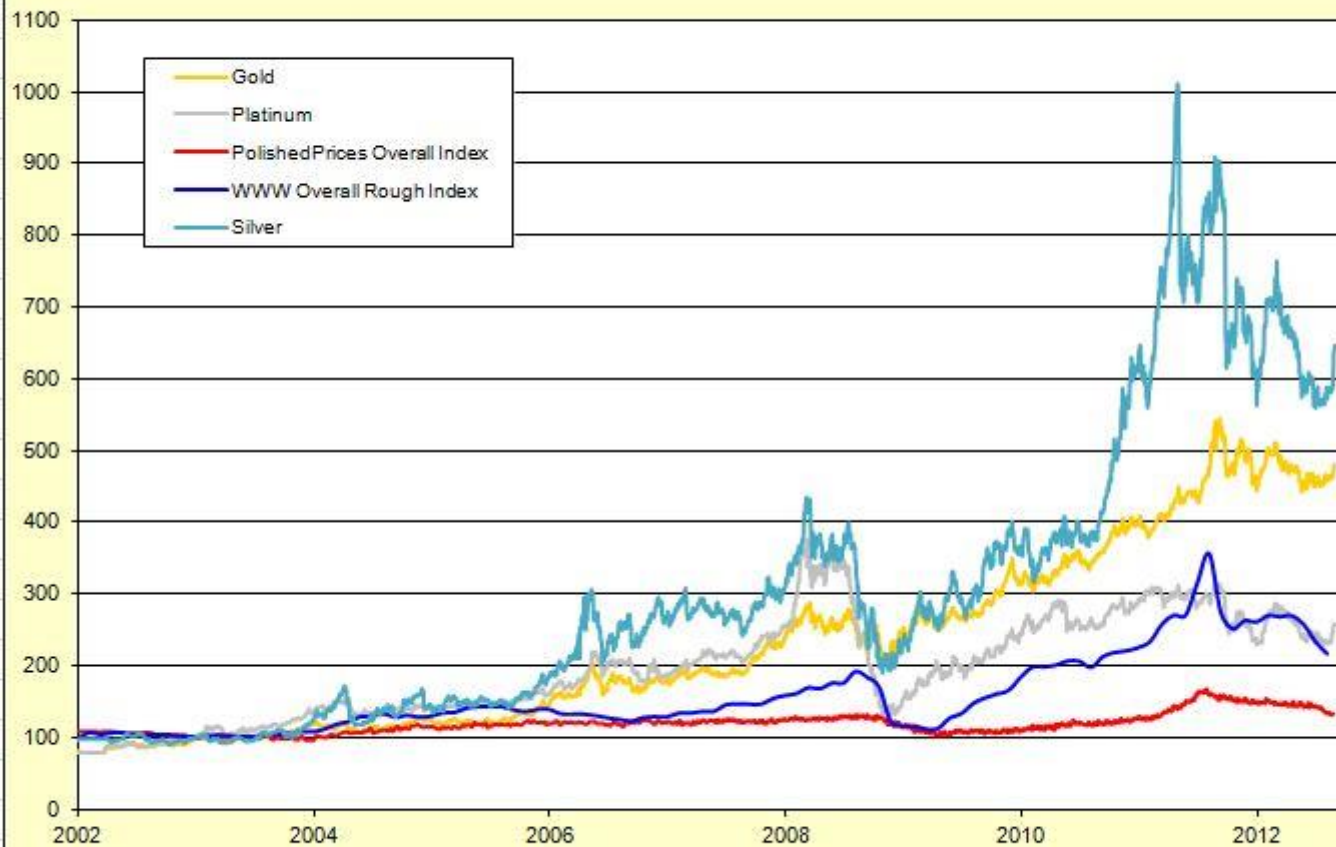
## Disparity since 2000





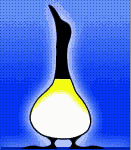
# Precious Metals and Diamonds

Jan 2003=100



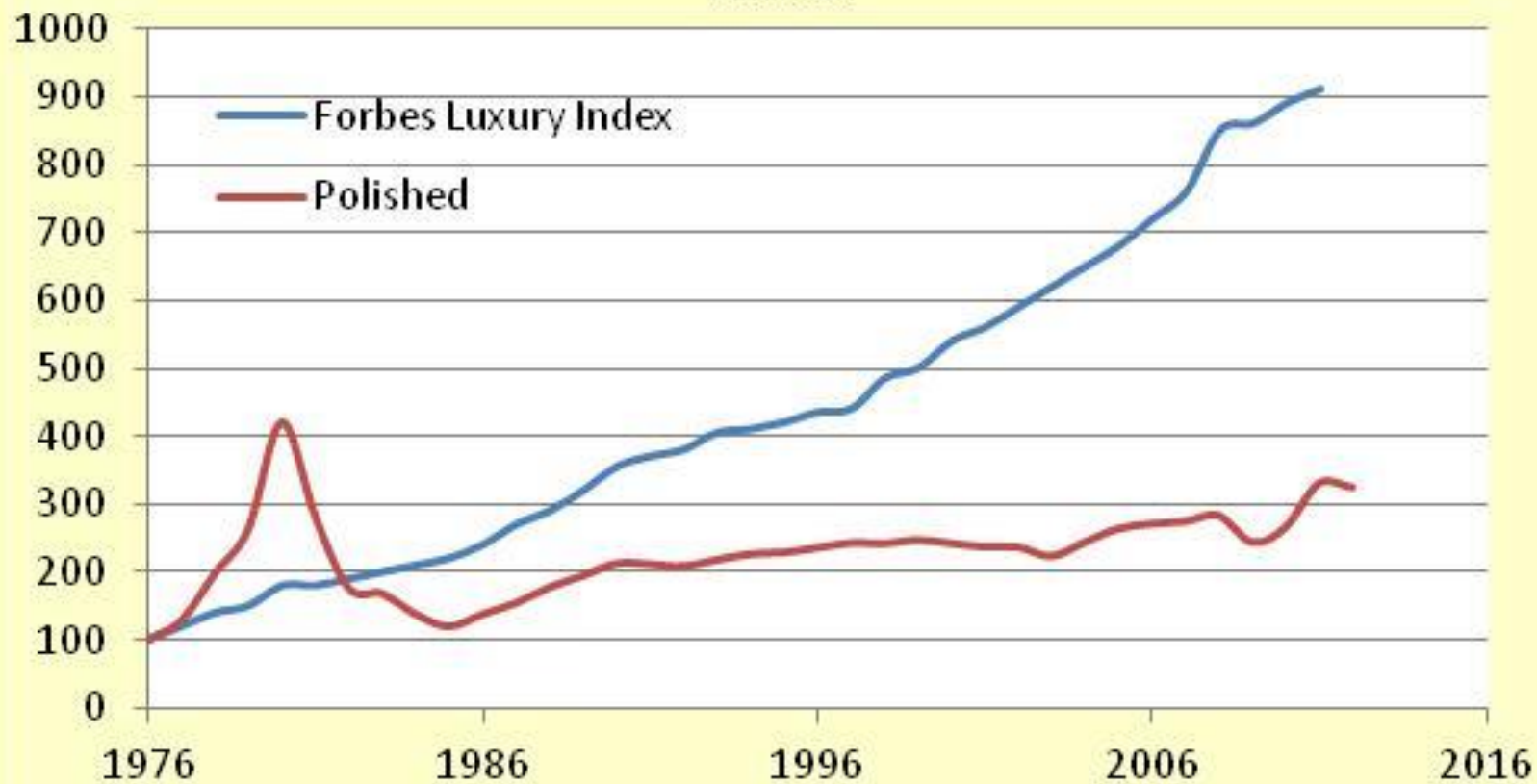
source: WWW Forecasts Ltd





# Forbes Luxury Items Index and Polished

1976=100



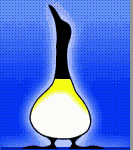


## Our full basket of luxury goods and services is listed below.



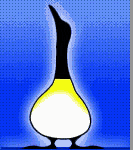
Item	Price	Price
	2011	change from 2010
Coat/natural Russian sable, Maximilian at Bloomingdale's	\$240,000	20%
Silk Dress/Bill Blass Fashions, LLC, classic	\$2,000	5%
Loafers/Gucci	\$495	0%
Shirts/1 dozen cotton, bespoke, Turnbull & Asser, London	\$4,380	4%
Shoes/men's black calf wing tip, custom-made, John Lobb, London	\$4,917	17%
School/preparatory, Groton, 1-year tuition, room, board	\$49,810	2%
University/Harvard, 1-year tuition, room, board, insurance	\$52,652	4%
Catered dinner/serving 40, Ridgewells, Bethesda, Md.	\$7,374	8%
Opera/Two tickets, six performances Metropolitan Opera, Saturday night, parterre box	\$4,385	3%
Caviar/Tsar Imperial Sevruga, 1 kilo, Petrossian, Los Angeles, CA & N.Y., N.Y.	\$13,600	NA
Champagne/Dom Perignon vintage 2002, case, Sherry-Lehmann, N.Y.	\$1,919	NA
Chateaubriand/7 pounds, Lobel's, N.Y.	\$525	5%
Dinner at La Tour d'Argent/Paris, estimated per person (including wine and tip)	\$470	10%
Piano/Steinway & Sons, concert grand, Model D, ebonized	\$130,800	6%
Flowers in season/arrangements for 6 rooms, changed weekly, Christatos & Koster, N.Y., per month	\$8,175	0%
Sheets/set of Italian linen-queen-size; Infinito, Pratesi	\$1,200	NA
Sterling Silver Flatware/Reed & Barton, Williamsburg Shell pattern, 5-piece place setting for 12	\$17,112	NA
Hotel/Manhattan 1-bedroom suite, Four Seasons, N.Y.	\$4,750	2%
Face-lift/well-recognized and experienced Facial Plastic Surgeon, N.Y.	\$18,500	9%
Hospital/MP, Washington Hospital Center, Washington, D.C., 1 day, concierge, security, gourmet meals, supplies, specialized nursing care	\$2,562	6%
Psychiatrist/Upper East Side, N.Y., 45 minutes, standard fee	\$325	0%
Lawyer/established N.Y. firm, Schlesinger, Gannon & Lazetera LLP, average hourly fee for estate planning by partner	\$895	2%
Spa/The Golden Door, California, basic weekly unit	\$6,750	-13%
Perfume/1 oz. Joy, by Jean Patou	\$450	0%
Sauna/8-by-10-by-7 feet, eight-person, Nordic Spruce/Abachi, Finnleo Sauna and Steam, MN	\$15,990	0%
Motor yacht/Hatteras 80 MY (with 1,550hp Caterpillar C-32 engines)	\$5,281,600	0%
Sailing Yacht/Oyster 655/16 - Rachel of London	\$3,586,220	NA
Shotguns/pair of James Purdey & Sons (12 guage Side-by-Side), Griffin & Howe, Bernardsville, NJ & Greenwich CT	\$197,004	5%
Thoroughbred/yearling, average price, Fasig-Tipton Saratoga summer select sale	\$319,340	16%
Swimming pool/Olympic (50 meters), Mission Pools, Escondido, CA	\$1,400,000	-5%
Tennis court/clay, Putnam, Tennis and Recreation, Harwinton, CT	\$55,000	0%
Train set/Pennsylvania Flyer O Gauge Train Set, Lionel at FAO Schwartz, N.Y.	\$300	0%
Airplane/Learjet 40XR, standard equipment, certified, 7 passengers	\$10,605,000	0%
Helicopter/Sikorsky S-76D, VIP options	\$14,800,000	14%
Automobile/Rolls-Royce Phantom	\$380,000	0%
Cigars/Aniversario No. 1, Dominican Republic, 25 cigars, Davidoff, N.Y.	\$900	0%
Magazine/Forbes, 1-year subscription	\$60	0%
Travel Bag/Keepall Bandouliere 50, Louis Vuitton	\$1,460	19%
Watch/Patek Philippe classic men's in gold (Calatrava), alligator strap	\$19,800	14%
Purse/Hermes, "Kelly Bag," calfskin, rigid, 28 centimeters	\$7,250	-1%

\*Currency exchange as of Aug. 31. NA: Not available.



**Diamonds generally have under-performed,  
Polished has grossly under-performed.**

Why?



# Possible reasons for underperformance

The industry has and will be dominated by a supply side monopoly

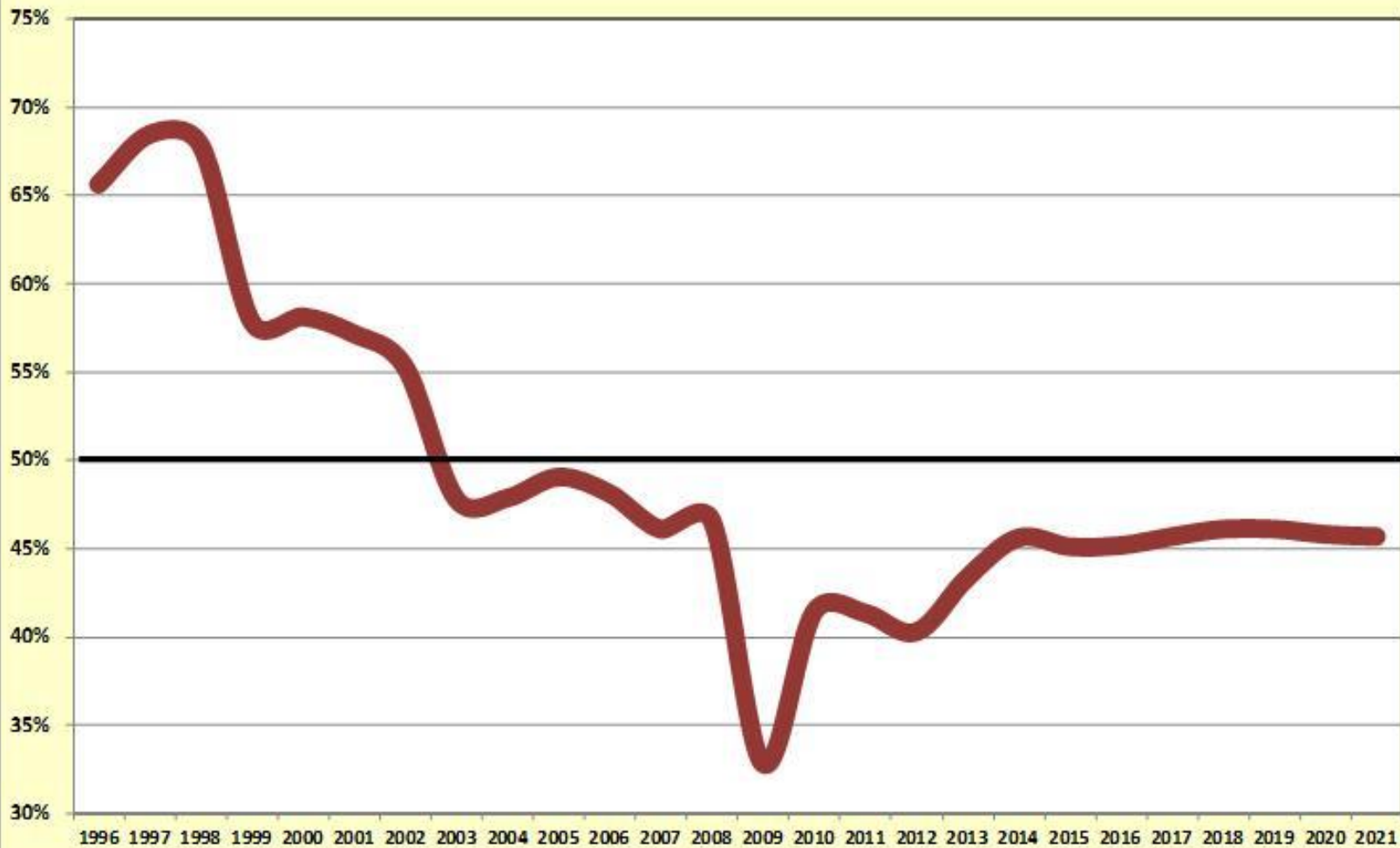
Industry has focused on using diamonds not on maximising diamonds

The dominance of family businesses or lack of a corporate ethos

A pathological clinging to smoke and mirrors.



De Beers Share of World Production (Dollars)





# The failure of Supplier of Choice

It's goals were:

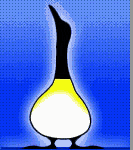
To be legally robust

To force the industry to become demand driven  
and not supply driven

To make De Beers rough the most expensive

To create competing brands

**All have failed in their own way.**



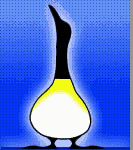
# What have been the implications of this failure?

SoC was a dirigiste diktat forcing companies out of their realms of expertise, increasing obfuscation

Structurally, with the combination of the sell down of De Beers stockpile on privitisation, it created, inter alia, manufacturing over capacity

It continues to force companies to do what is perceived as best in their relationship with the monopoly and not necessarily maximise the price of diamonds.

The status quo was maintained.



# Why can monopolies be a hindrance.

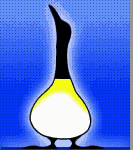
It is all businesses goal to create a monopoly, if they can e.g. Apple?

Monopolies are maintained in the long run by under pricing not over pricing.

Monopolies and the systems they spawn are inevitably more risk adverse.

Monopolies fight 'disruptive change' or Per Tim Berners- Lee 'Monopolies lose their incentive to innovate.'



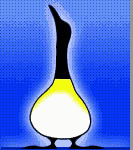


# Possible reasons for underperformance

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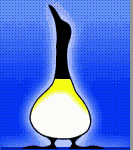
The dominance of family businesses or lack of a corporate ethos

A pathological clinging to smoke and mirrors.



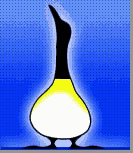
# Failure to accept “Disruptive Innovation”

Sony and the I-Pod  
BT and Vodaphone



# John Kay FT's economic commentator 4.9.2012

‘A collection of all the businesses which might be transformed by disruptive innovation might...appear to be a means of assembling the capabilities needed to manage change. In practice, it is a means of gathering together everyone who has an incentive to resist change...Economic growth is held back by industries where established interests are so powerful that disruptive innovation can be staved off for ever.’



# Absence of market reality

Market reality is kept at bay on the supply side by the effect of a monopoly

Discretionary pricing has been proven to be regressive for the industry, as the distortions created ripple through the chain.

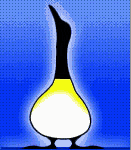
In polished pricing it is kept at bay by the industry's bench mark pricing mechanism, Rapaport.

A price list which only bears any resemblance to reality by chance does not provide any confidence to third parties



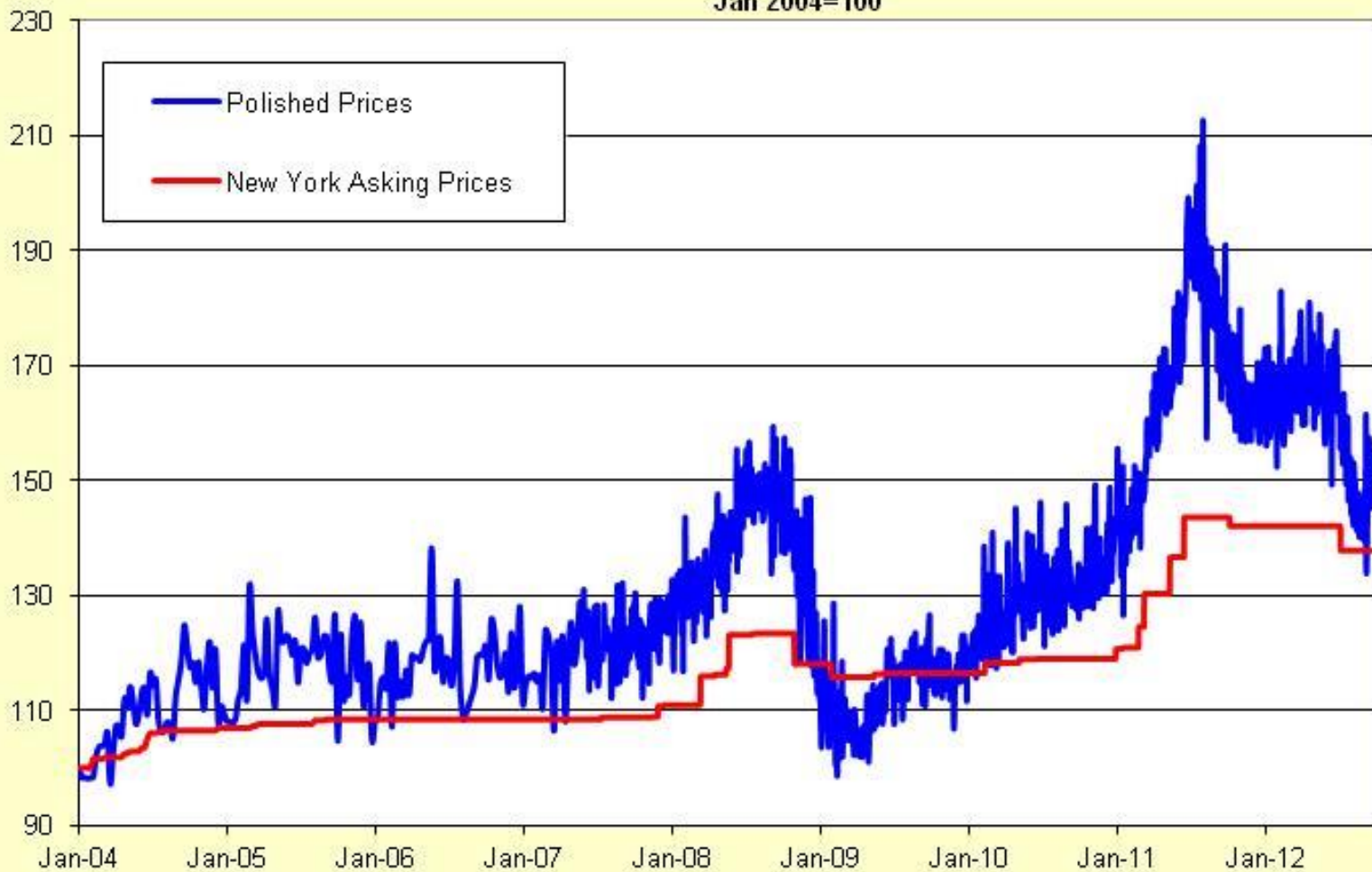
## Overall Index vs New York Asking Prices Jan 2004=100

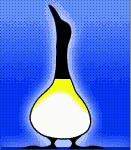




### 4gr Fine vs New York Asking Prices

Jan 2004=100

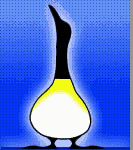




### 30 pt Mixed vs New York Asking Price

Jan 2004=100





# Absence of confidence in the product

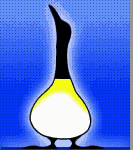
A non commodity that some want to  
'decommoditise'?

Fixation on price points

Presentation of product

Total absence of transparency.



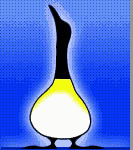


# The Status Quo is Failing

To many missed opportunities

- Cultured Diamonds
- Investment Diamonds

The industry has been implacable to change  
Why should someone graduating today want to  
join the diamond industry?



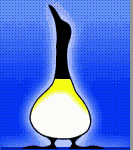
# Huge potential for diamonds

Diamonds are the most emotional of commodities

Diamonds combine beauty, status, stored value and above all emotion

Women like diamonds

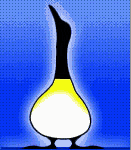
People want to invest in diamonds as an asset class



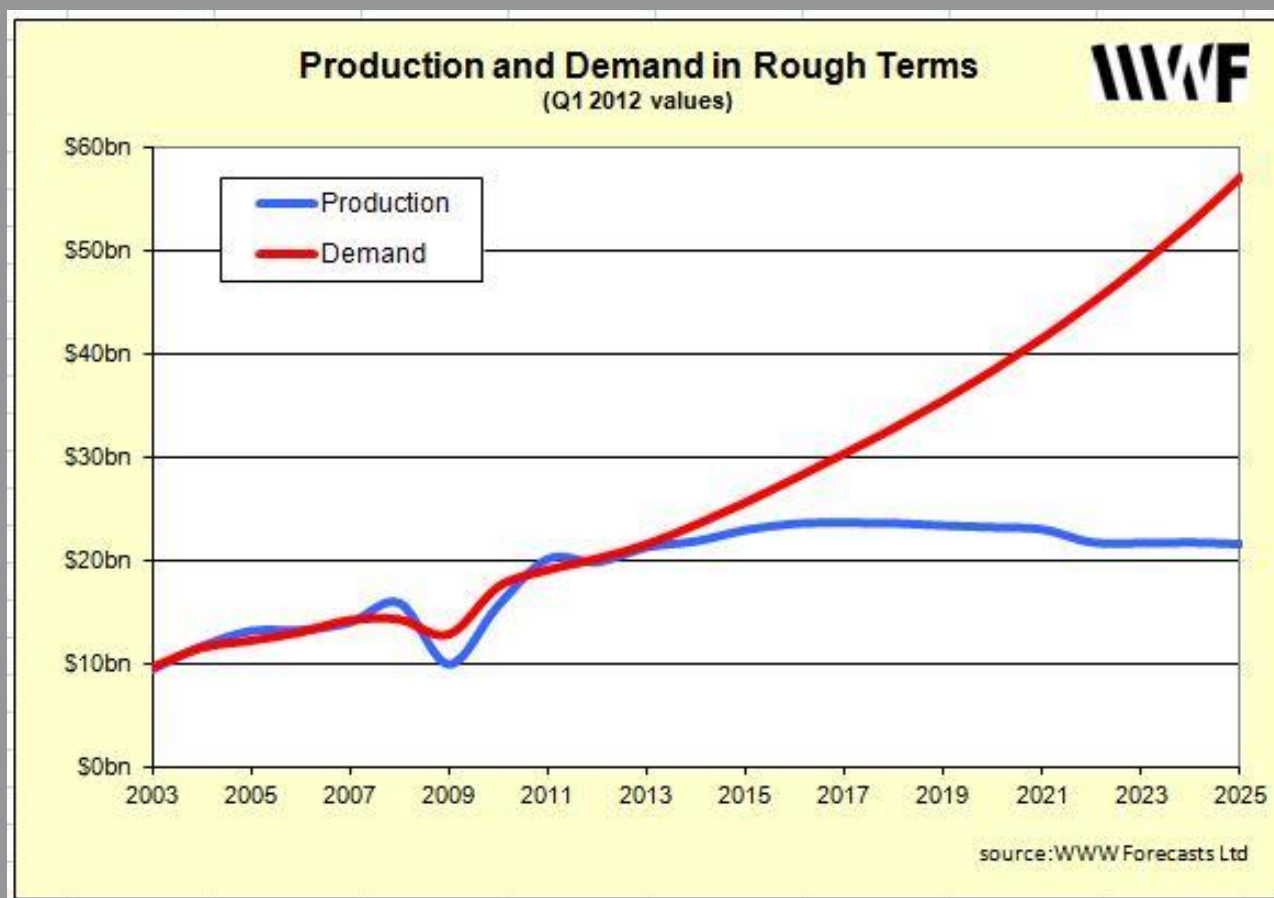
# Diamonds are rare and will become rarer

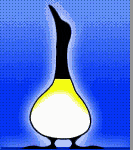
Finding and exploiting those very few commercial diamond deposits is ever more costly

The value of diamonds does not depend upon a myth invented by De Beers



# Supply Demand remains very favourable





# Forces for change

Structural change is afoot:

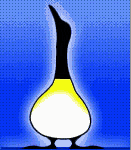
Dominant role of the Government of Botswana

New ownership of De Beers

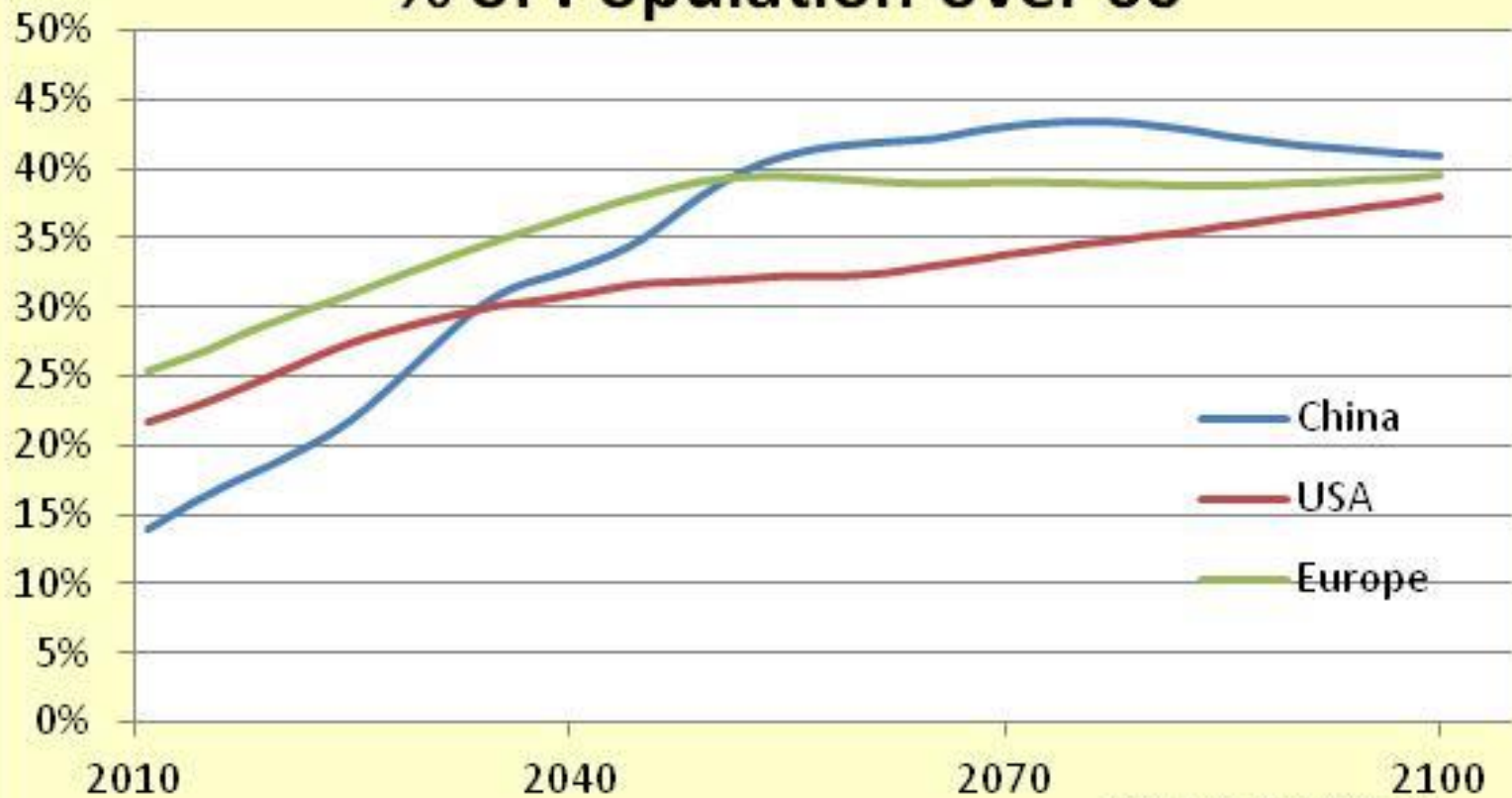
Basle III

Current recession / focus on hard assets

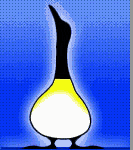
Demographics



## % of Population over 60



source: United Nations



# All a matter of Choice

Will the diamond industry grab these opportunities or will it snatch defeat from the jaws of victory?