Gold and diamonds report.

Perhaps no other market in the world has the universal appeal of the gold market. For thousands of years the desire to possess gold has driven people crazy. It has been the cause of many wars; it has built empires and backed currencies.

Mountains have been moved and forests felled in pursuit of this glittering metal known by the chemical symbol Au. No other metal has tantalized and tormented us in the same way as gold.

Gold is by no means a necessity for human existence, but nearly every society through the ages has invested gold with an almost mythological power. It is one of the world's most coveted commodities. It has been held in awe for thousands of years, as a symbol of beauty, wealth and immortality - The Egyptian pharaohs insisted on being buried in what they called the "flesh of the gods". Many of the ancient Greeks were buried wearing golden face masks. Gold fever spurred the "forty-niners" on to their mad dash for the mother lode in the American West.

Part of the challenge, as well as the fascination of gold, is that there is so little of it. In total, only around 161,000 tons of gold has ever been mined. This is barely enough to fill two Olympic-size swimming pools! More than half of that has been extracted in the past 50 years. New discoveries are rare. Gone are the hundred-mile-long gold seams in South Africa and the golf ball sized nuggets in California. Most of the gold left to mine, now exists as traces buried in remote and inhospitable corners of the globe.

Over the centuries gold has been used as a medium of international exchange, as a store of wealth and as a means of increasing and preserving power.

Individuals have used gold as a status symbol and as insurance against the fluctuations and depreciation of paper money and other macroeconomic and geopolitical risks.

Financiers in 18th century England followed Sir Isaac Newton's advice and made gold the bedrock of the global economy. This gold standard endured right through to the 20th century. Every country in the world has now given up the gold standard, but gold's appeal is still strong. In times of global uncertainty, it grows stronger.

Gold has been on a major upward swing since 2001. The price of gold stood at \$271 an ounce on September 10th, 2001. In March 2008 the price hit \$1,023 per ounce. It has fallen back from its peak since then, but many pundits believe it is still in an upward trend.

The USA is said to own 261 million ounces of gold, supposedly stored in the same Fort Knox vault that Goldfinger found so appealing! At \$1,000 per ounce, the people's gold would have a value of \$261 billion dollars. If this figure is accurate, then the total \$13 trillion TARP bailout, due to the credit crisis represents around 49 times the U.S. gold supply! None of the paper money that has been churned out by governments around the world is backed by gold. Many gold bugs are seeing this situation as a buying signal to increase their gold exposure.

Successful investing is about the diversification and management of risk. In laywoman's terms this means not having all your eggs in one basket. We know from history that markets can and do crash and if you are not diversified your entire nest egg can be severely depleted.

A healthy portfolio includes a wide range of assets including a variety of equities with exposures to different market sectors and regions; a variety of different countries government backed bonds; diversified property holdings; a cash component and a small allocation to gold-related investments. A good rule of thumb would be an allocation of between 5 - 10% of your overall portfolio to gold and related gold-investments.

One’s motivation for buying gold is fundamental to deciding in which form you should buy it. Are you a speculator, an investor or a saver? Do you wish to take a short term speculative position in gold? Are you investing for the short, medium or long term? Or are you hedging your bets and using gold as a form of financial insurance?

If you feel more comfortable holding "tangible" assets then you can consider gold coins or bullion.

Investing in physical gold.

Physical gold is a universal finite currency, held by every central bank of note in the world. Gold bullion is the ultimate safe haven asset and a great way of ensuring wealth preservation carries on from one generation to the next. However; due to the physical restrictions of storing large quantities of gold bars, this is not an option for most investors. For example a 400 troy ounce gold bar costs around $240,000. Thus big bars are normally the preserve of large companies, institutions and central banks.

Coins and bars.

Modern bullion coins allow smaller investors to own investment grade gold as legal tender coins, at a small premium to the spot price of gold. The value of bullion coins and bars is solely determined by the price of gold and thus follows the bullion price.

Gold, silver and platinum are all available in the form of bullion coins, minted in the US, UK, Canada, South Africa, Austria, Australia, China and other countries. Most bullion coins are minted in 1/10oz, 1/4oz, 1/2oz & 1oz form. However, one ounce gold bullion coins such as Krugerrands are by far the most popular for both small investors and high net worth individuals who like the divisibility afforded by them.

As investor appetite for gold increases worldwide, nations which mint gold coins have increased production to satisfy the growing demand. In fact, the demand for gold was so high in 2008 that sales in the US of the one-ounce gold American Eagle coin, soared more than 400% in 2008. But this is not the best selling gold coin in the world. Few people know that the best seller is the Austrian Philharmonic (which is named after the Vienna Philharmonic

Orchestra) 24K coin. The sales of this coin grew by 544% in the year to the end of February 2009.

Semi- Numismatic and Numismatic gold coins.

Numismatic or older and rare coins are bought not solely for their precious metal content but also for their rarity and their historical and aesthetic appeal. Their price is leveraged to the gold price, which means that the price of these coins will generally surpass and increase faster than the gold price, in a bull market and will decrease by more, when gold is in a bear market.

For more information on this subject go to the Pink Investment's learning centre and take the learning module on coins. This will give you a good basic understanding of collecting coins as an alternative investment.

While investors flock to new gold-backed exchange traded funds, jewellery still accounts for two-thirds of the gold demand in worldwide. Indians have saved in physical gold for millennia. The country is the world's largest consumer of the metal, importing nearly 800 tonnes a year, or 20% of global demand.

Gold is an obsession for many Indians and its fascination is woven into the culture. China became the world's second largest buyer of gold jewellery, in 2007. If the trends in demand from these two countries continues then the gold price could continue to rise.

Stocks that could benefit if the price of gold continues to rise.

There is still an argument for buying gold mining stocks on any dips in price. You need to be selective in the companies you buy. You want well capitalized miners with solid reserves and good production facilities. Goldcorp fits the bill. **Goldcorp (GG: NYSE)** is in our portfolio. Check out the archived reports on this stock. **Trans Siberian Gold (TSG:LSE)** is also one of our holdings. This is a much smaller company and has higher volatility than Goldcorp. The **Investec Gold Fund** has also been a longer term holding in our portfolios. This fund gives better diversity by investing in a "basket" of gold stocks.

There are hundreds of gold mining stocks and funds to choose from. Check out the reports for the three above, in our archives on the Pink Investment's website. They will give you a good starting point, if you are considering gold as an investment.

Many people are also surprised to hear that trading the Australian dollar is just like trading gold in many ways. Australia is the world's third-largest producer of gold. The Australian dollar had an 84% positive correlation with the precious metal between 1999 and 2008. Generally speaking, this means that when gold prices rise, the Australian dollar appreciates as well. The proximity of New Zealand to Australia makes Australia a preferred destination for exporting New Zealand goods. Therefore, the health of New Zealand's economy is closely tied to the health of the Australian economy, which explains why the NZD/USD and the AUD/USD have had a 96% positive correlation over the same time period.

For a number of years we had the Australian dollar and NZ dollar in our Dependable portfolio. Both currencies produced a great return for US dollar based investors during that time. If you believe that the US dollar will weaken due to the impact of the TARP debt, then investing in the Aussie dollar may be an option to look at. Check out the archived reports on the website for all the details.

This is by no means a comprehensive report on gold. But it should serve to give you some idea as to the different types of gold investments available.

Are diamonds still a girl’s best friend?

Diamonds might be a girl's best friend, but are they set to be investors' friends too? Well, according to the diamond industry, yes!

A survey conducted in 2007, at the Hong Kong International Jewellery Show says that the industry is expecting sales growth of 6%-8% worldwide.

De Beers, control 65% of global production. Thanks to a recent De Beers' marketing campaign, diamond retail sales in China alone "are expected to grow at up to 20% a year".

Coupled with similar demand from India, that should sustain worldwide demand growth for the next decade. In conjunction with the growing demand, production at some of the world's biggest mines is beginning to dwindle. In-ground resources have declined from 85 years worth of production in the mid 1980s to around 20 years worth today and De Beers' fabled $5bn stockpile, has been sold off.

Even after a sharp downturn in 2008, it would appear that the demand for diamonds will rise again as the Chinese and Indian economies rebound. Demand may be growing again, but supply is increasingly tight. De Beers is apparently operating on a working inventory of just three months' supply.

China, of course, is the new factor. Ten years ago, it was rare for women in China to receive engagement rings. But nowadays, in major cities more than 80% of soon-to-be brides now sport a diamond ring. China has become the third-largest consumer of diamonds in the world, after the USA and Japan. India is only just behind China.

If you love beautiful things then the coloured diamonds of the Argyle mine in Australia will appeal to you. The rare pink diamonds are stunning. Pink diamonds can fetch more than$400,000 per carat. The Argyle mine supplies 90% of the world's pink diamonds and a large proportion of the cognac coloured diamonds. It is rumoured that this mine, owned by Rio Tinto, will be closed within the next 10 years, so these rare coloured diamonds will become very scarce. There is already a gap between supply and demand for these fancy coloured diamonds.

They rose in value by 200-300% between 2005 -2007. Only one diamond in every 10,000 found is a proper fancy colour and intensity. Every big coloured diamond found now is as rare as hens teeth!

Blue diamonds.

Blue diamonds are also among the rarest of all gems. They owe their colour to the presence of the chemical element *Boron* during the stone's formation.

Petra Diamonds announced in 2008 that a rare blue, 26.58 carat rough stone had been discovered at its historic Cullinan mine in South Africa. After expert cutting it was fashioned into a cushion shaped diamond, weighing in at 7.03 carats. The Gemological Institute of America (GIA) graded the stone as fancy vivid blue in colour and internally flawless clarity which is the highest possible grading for a blue diamond.

The magnificent stone sold in May 2009 for a record 10.5 million Swiss francs ($12.4 million), the highest price paid per carat for any gemstone at auction, Sotheby's said. The blue diamond was bought by an anonymous buyer bidding by telephone. The gem was the focus of Sotheby's semi-annual sale in Geneva, conducted by David Bennett, chairman of Sotheby's jewellery department in Europe and the Middle East. He said "*the results showed the market's resilience despite the economic downturn*."

Coloured diamonds are a favourite of **Oprah Winfrey**. She often wears a gorgeous pair of fancy yellow & white diamond earrings and a fancy yellow diamond ring by iconic jeweller Graff.

Always remember the five C's when selecting diamonds - Cut, Clarity, Carat, Colour, Conflict-free.

Global diamond jewellery sales have more than trebled since 1983 to over $70bn, with the emerging middle classes in India and China being a key factor.

The gorgeous coloured diamond ring on your finger could become an excellent investment in the future.

It’s not just the jewellery business that has seen increased demand for diamonds. 8o% of overall demand for diamonds is for less glamorous industrial use. This means that unlike other gems, the market is more protected from fluctuations in consumer demand. The chemical properties of diamonds, especially its hardness, means that it has a myriad uses, from drill bits to surgical equipment. However, in this area there is increasing competition from synthetic diamonds. With synthetic diamonds flowing in from China and Korea, the market is vulnerable.

Stocks that could profit from an increase in the price of diamonds.

Aber diamonds: Global diamond jewellery sales have climbed to more than $70bn. But, no major mines have opened in recent years and stockpiles are dwindling quickly. Rough diamond prices look set to climb into the future. That could be good news for Canada's Aber Diamond Corp (TSX: ABZ). This is the only listed diamond company involved in retailing and mining. The company owns 40% of Canada's Diavik mine, where production costs are $41 a carat, while recent rough diamond sales have fetched well over $100 a carat. All this makes Aber diamonds, on a P/E of 19, an appealing alternative to "small, speculative" diamond exploration firms.

London's Aim market is currently host to 20 diamond exploration firms. Miners from Russia and South Africa have chosen to list on AIM.

The following are all worth closer inspection, if you are looking for an investment in diamond miners:

Petra Diamonds (Aim:PDL), Dwyka Diamonds (Aim-.DWY), Gravity Diamonds (Aim.GRN), BDI Mining (Aim- BDI), Firestone Diamonds (Aim-FDI), African Diamonds (Aim-AFD), The Sierra Leone Diamond Company (Aim:SLD), SouthernEra Diamonds (Aim:SRE), Karelian (Aim-KDR), European Diamonds (Aim-EPD).

Remember, as with all commodities, expect plenty of volatility.