

[Executive Life](#)

Diamonds are a sham and it's time we stopped getting engaged with them

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Photo: George Pimentel/WireImage/Getty

“Yeah, they say three years’ salary.” — [Michael Scott, The Office.](#)

People propose to their partners through a peculiar rite of passage – they spend most of their savings on a shiny piece of rock.

They could invest the money in assets that will compound over time and someday provide a nest egg.

Instead, they trade that money for a diamond ring, which isn't much of an asset at all. As soon as you leave the jeweler with a diamond, it loses over 50% of its value.

Americans exchange diamond rings as part of the engagement process, because in 1938 De Beers decided that they would like us to. Prior to a stunningly successful marketing campaign 1938, Americans occasionally exchanged engagement rings, but wasn't a pervasive occurrence.

Not only is the demand for diamonds a marketing invention, but diamonds aren't actually that rare. Only by carefully restricting the supply has De Beers kept the price of a diamond high.

Countless American dudes will attest that the societal obligation to furnish a diamond engagement ring is both stressful and expensive. But here's the thing – this obligation only exists because the company that stands to profit from it willed it into existence.

So here is a modest proposal: Let's agree that diamonds are bullshit and reject their role in the marriage process. Let's admit that as a society we got tricked for about century into coveting sparkling pieces of carbon, but it's time to end the nonsense.

The concept of intrinsic value

In finance, there is concept called [intrinsic value](#). An asset's value is essentially driven by the (discounted) value of the future cash that asset will generate. For example, when Hertz buys a car, its value is the profit they get from renting it out and selling the car at the end of its life (the "terminal value"). For Hertz, a car is an investment. When you buy a car, unless you make money from it somehow, its value corresponds to its [resale value](#). Since a car is a depreciating asset, the amount of value that the car loses over its lifetime is a very real expense you pay.

A diamond is a depreciating asset masquerading as an investment. There is a common misconception that jewelry and precious metals are assets that can store value, appreciate, and hedge against inflation. That's not wholly untrue.

[Gold and silver](#) are commodities that can be purchased on financial markets. They can appreciate and hold value in times of inflation. You can even hoard gold under your bed and buy gold coins and bullion (albeit at a [~10% premium](#) to market rates). If you want to hoard gold jewelry however, there is typically a [100-400%](#) retail markup so that's probably not a wise investment.

But with that caveat in mind, the market for gold is fairly liquid and gold is fungible – you can trade one large piece of gold for 10 smalls ones like you can a 10 dollar bill for a 10 one dollar bills. These characteristics make it a feasible potential investment.

Diamonds, however, are [not an investment](#). The market for them is neither liquid nor are they fungible.

The first test of a liquid market is whether you can resell a diamond. In a famous piece published by [The Atlantic in 1982](#), Edward Epstein explains why you can't sell used diamonds for anything but a pittance:

Retail jewellers, especially the prestigious Fifth Avenue stores, prefer not to buy back diamonds from customers, because the offer they would make would most likely be considered ridiculously low. The "keystone," or markup, on a diamond and its setting may range from 100 to 200 per cent, depending on the policy of the store; if it bought diamonds back from customers, it would have to buy them back at wholesale prices.

Most jewellers would prefer not to make a customer an offer that might be deemed insulting and also might undercut the widely held notion that diamonds go up in value. Moreover, since retailers generally receive their diamonds from wholesalers on consignment, and need not pay for them until they are sold, they would not readily risk their own cash to buy diamonds from customers.

When you buy a diamond, you buy it at retail, which is a 100% to 200% markup. If you want to resell it, you have to pay less than wholesale to incent a diamond buyer to risk their own capital on the purchase. Given the large markup, this will mean a substantial loss on your part. The same article puts some numbers around the [dilemma](#):

Because of the steep markup on diamonds, individuals who buy retail and in effect sell wholesale often suffer enormous losses. For example, Brod estimates that a half-carat diamond ring, which might cost \$2,000 at a retail jewelry store, could be sold for only \$600 at Empire.

Some diamonds are perhaps investment grade, but you probably don't own one, even if you spent a lot.

The appraisers at Empire Diamonds examine thousands of diamonds a month but rarely turn up a diamond of extraordinary quality. Almost all the diamonds they find are slightly flawed, off-colour, commercial-grade diamonds. The chief appraiser says, "When most of these diamonds were purchased, American women were concerned with the size of the diamond, not its intrinsic quality." He points out that the setting frequently conceals flaws, and adds, "The sort of flawless, investment-grade diamond one reads about is almost never found in jewelry."

As with [televisions](#) and [mattresses](#), the diamond classification scheme is extremely complicated. Diamonds are not fungible and can't be easily exchanged with each other. Diamond professionals use the 4 C's when classifying and pricing diamonds: carats, colour, cut, and clarity. Due to the complexity of these 4 dimensions, it's hard to make apples to apples comparisons between diamonds.

But even when looking at the value of one stone, professionals seem like they're just making up diamond [prices](#):

In 1977, for example, jewellers' Circular Keystone polled a large number of retail dealers and found a difference of over 100 per cent in offers for the same quality of investment-grade diamonds.

So let's be very clear, a diamond is not an investment. You might want one because it looks pretty or its status symbol to have a "massive rock", but not because it will store value or appreciate in value.

But among all the pretty, shiny things out there – gold and silver, rubies and emeralds – why do Americans covet diamond engagement rings in the first place?

A diamond is forever a measure of your manhood

"The reason you haven't felt it is because it doesn't exist. What you call love was invented by guys like me, to sell nylons." — *Don Draper*, [Madmen](#)

We like diamonds because [Gerold M. Lauck](#) told us to. Until the mid 20th century, diamond engagement rings were a [small and dying](#) industry in America. Nor had the concept really taken hold in Europe. Moreover, with Europe on the verge of war, it didn't seem like a promising place to invest.

Not surprisingly, the American market for diamond engagement rings began to shrink during the Great Depression. Sales volume declined and the buyers that remained purchased increasingly smaller stones. But the

US market for engagement rings was still [75% of De Beers' sales](#). If De Beers was going to grow, it had to reverse the trend.

And so, in 1938, De Beers turned to Madison Avenue for help. They hired Gerold Lauck and the N. W. Ayer advertising agency, who commissioned a study with some astute observations. Men were the key to the [market](#):

Since “young men buy over 90% of all engagement rings” it would be crucial to inculcate in them the idea that diamonds were a gift of love: the larger and finer the diamond, the greater the expression of love. Similarly, young women had to be encouraged to view diamonds as an integral part of any romantic courtship.

However, there was a dilemma. Many smart and prosperous women didn't want diamond engagement rings. They wanted to be different.

The millions of brides and brides-to-be are subjected to at least two important pressures that work against the diamond engagement ring. Among the more prosperous, there is the sophisticated urge to be different as a means of being smart... the lower-income groups would like to show more for the money than they can find in the diamond they can afford...

Lauck needed to sell a product that people either did not want or could not afford. His solution would haunt men for generations. He advised that De Beers market diamonds as a [status symbol](#):

“The substantial diamond gift can be made a more widely sought symbol of personal and family success — an expression of socio-economic achievement.”

“Promote the diamond as one material object which can reflect, in a very personal way, a man's ... success in life.”

The next time you look at a diamond, consider this. Nearly every American marriage begins with a diamond because a bunch of rich white men in the 1940s convinced everyone that its size determines your self worth. They created this convention – that unless a man purchases (an intrinsically useless) diamond, his life is a failure – while sitting in a room, racking their brains on how to sell diamonds that no one wanted.

With this insight, they began marketing diamonds as a symbol of status and love:

Movie idols, the paragons of romance for the mass audience, would be given diamonds to use as their symbols of indestructible love. In addition, the agency suggested offering stories and society photographs to selected magazines and newspapers which would reinforce the link between diamonds and romance. Stories would stress the size of diamonds that celebrities presented to their loved ones, and photographs would conspicuously show the glittering stone on the hand of a well-known woman.

Fashion designers would talk on radio programs about the “trend towards diamonds” that Ayer planned to start. The Ayer plan also envisioned using the British royal family to help foster the romantic allure of diamonds.

Even the royal family was in on the hoax! The campaign paid immediate dividends. Within 3 years, despite the Great Depression, diamond sales in the US increased 55%! 20 years later, an entire generation believed that an expensive diamond ring was a necessary step in the marriage process.

The De Beers marketing machine continued to churn out the hits. They circulated [marketing materials](#) suggesting, apropos of nothing, that a man should spend one month's salary on a diamond ring. It worked so well that De Beers arbitrarily decided to increase the suggestion to two months salary. That's why you think that you need to spend two month's salary on a ring – because the suppliers of the product said so.

Today, over [80% of women](#) in the US receive diamond rings when they get engaged. The domination is complete.

A history of market manipulation

What, you might ask, could top institutionalizing demand for a useless product out of thin air? Monopolizing the supply of diamonds for over a century to make that useless product extremely expensive. You see, diamonds aren't really even that rare.

[Before 1870](#), diamonds were very rare. They typically ended up in a Maharaja's crown or a royal necklace. In 1870, enormous deposits of diamonds were discovered in Kimberley, South Africa. As diamonds flooded the market, the financiers of the mines realised they were making their own investments worthless. As they mined more and more diamonds, they became less scarce and their price dropped.

The diamond market may have bottomed out were it not for an enterprising individual by the name of [Cecil Rhodes](#). He began buying up mines in order to control the output and keep the price of diamonds high. [By 1888](#), Rhodes controlled the entire South African diamond supply, and in turn, essentially the entire world supply. One of the companies he acquired was eponymously named after its founders, the De Beers brothers.

Building a diamond monopoly [isn't easy work](#). It requires a balance of ruthlessly punishing and cooperating with competitors, as well as a very long term view. For example, in 1902, prospectors discovered a massive mine in South Africa that contained as many diamonds as all of De Beers' mines combined. The owners initially refused to join the De Beers cartel, joining three years later after new owner Ernest Oppenheimer recognised that a competitive market for diamonds would be disastrous for the [industry](#):

Common sense tells us that the only way to increase the value of diamonds is to make them scarce, that is to reduce production.

Here's how De Beers has controlled the diamond supply chain for [most of the last century](#). De Beers owns most of the diamond mines. For mines that they don't own, they have historically bought out all the diamonds, intimidating or co-opting any that think of resisting their monopoly. They then transfer all the diamonds over to the Central Selling organisation (CSO), which they own.

The CSO sorts through the diamonds, puts them in boxes and presents them to the 250 partners that they sell to. The price of the diamonds and quantity of diamonds are non-negotiable – it's take it or leave it. Refuse your boxes and you're out of the diamond industry.

For most of the 20th century, this system has controlled 90% of the diamond trade and been solely responsible for the inflated price of diamonds. However, as Oppenheimer took over leadership at De Beers, he keenly assessed the primary operational risk that the company [faced](#):

Our only risk is the sudden discovery of new mines, which human nature will work recklessly to the detriment of us all.

Because diamonds are "valuable", there will always be the risk of entrepreneurs finding new sources of diamonds. Although controlling the discoverers of new mines often actually meant working with communists. [In 1957](#), the Soviet Union discovered a massive deposit of diamonds in Siberia. Though the diamonds were a bit on the smallish side, De Beers still had to swoop in and buy all of them from the Soviets, lest they risk the supply being unleashed on the world market.

Later, [in Australia](#), a large supply of coloured diamonds was discovered. When the mine refused to join the syndicate, De Beers retaliated by unloading massive amounts of coloured diamonds that were similar to the Australian ones to drive down their price. Similarly, in the 1970s, some Israeli members of the CSO started stockpiling the diamonds they were allocated rather than reselling them. This made it difficult for De Beers to control the market price and would eventually cause a deflation in diamond prices when the hoarders released their stockpile. Eventually, these offending members were banned from the CSO, essentially shutting them out from the diamond business.

[In 2000](#), De Beers announced that they were relinquishing their monopoly on the diamond business. They even settled a US Antitrust lawsuit related to price fixing industrial diamonds to the tune of \$10 million (How generous! What is that, the price of one investment banker's engagement ring?).

Today, De Beers hold on the industry supply chain is [less strong](#). And yet, price continue to rise as new deposits haven't been found recently and demand for diamonds is increasing in [India and China](#). For now, it's less necessary that the company monopolize the supply chain because its lie that a diamond is a proxy for a man's worth in life has infected the rest of the world.

“I didn't get a bathroom door that looks like a wall by being bad at business” — **Jack Donaghy**, [30 Rock](#)

We covet diamonds in America for a simple reason: the company that stands to profit from diamond sales decided that we should. De Beers' marketing campaign single handedly made diamond rings the measure of one's success in America. Despite its complete lack of inherent value, the company manufactured an image of diamonds as a status symbol. And to keep the price of diamonds high, despite the abundance of new diamond finds, De Beers executed the most effective monopoly of the 20th century. OK, we get it De Beers, you guys are really good at business!

The purpose of this post was to point out that diamond engagement rings are a lie – they're an invention of Madison Avenue and De Beers. This post has completely glossed over the sheer amount of human suffering that we've caused by believing this lie: [conflict diamonds](#) funding wars, supporting apartheid for decades with our money, and pillaging the earth to find shiny carbon. And while we're on the subject, why is it that [women need to be asked and presented with a ring](#) in order to get married? Why can't they ask and do the presenting?

Diamonds are not actually scarce, make a terrible investment, and are purely valuable as a status symbol.

Diamonds, to put it delicately, are bullshit.

This post was written by Rohin Dhar. He has a very patient wife. Follow him on [Twitter here](#) or [Google](#).