

Untapped Wealth

January 2012 Edition

This month, something grabbed my attention and it's an investment that quite frankly I never thought I would be suggesting to you. Most of my recommendations regarding "mining" are commodities like oil, oil shale, silver, gold and copper.

This month, I'm recommending a diamond miner/retailer and it's all because I feel that diamonds will become the new gold. I want to get right into it, so here's my justification-

Have a great month.

Tim Fields

Diamonds, the New Gold

In early January, I wrote an article for the Daily Market Beat about diamonds how they're projected to beat gold and it's expected that gold will start to lose value. The article is below:

"Hedging Against Gold?"

That sounds strange, but when gold prices actually do start to fall, where do you head? Well, technically, if gold is falling it generally means that the economy is doing pretty well and the country isn't printing money.. But what about right now? What about getting in on something that could be seen as a sure bet of not only hedging against the dollar, the economy and gold, but have its own driving force.

Bloomberg.com reported this weekend a very interesting story about something I really didn't think I would ever recommend to you- diamonds. The deal is diamond prices are setting up to rise for the next four years and this sharp increase could very well outpace gold. The reasons- increased spending on luxury goods in China, India and the Middle East is creating more demand than there is supply.

Edward Sterck, an analyst at BMO Capital Markets said, "Average prices for rough, or uncut, diamonds will probably climb 9% to \$145 a carat next year, 1.4% in 2013 and 4.8% in 2014." He added, "They may gain 2.6% in 2015 and 3.2% in 2016." Regarding gold, gold will drop for three years starting 2013, following a 19% gain in 2012, according to the median of seven analyst estimates compiled by Bloomberg.

The demand for diamonds is looking like it could grow at double the pace of supply through 2020 because of an

expanding middle class in China and India, which Bain & Co. said this month in a report.

Anglo American Plc (which controls De Beers, the world's largest diamond miner) said that China and India and the Middle East, will account for 40% of global diamond consumption by 2015, up from about 8 percent in 2005.

Vladimir Sergievskiy, an analyst at Moscow-based Finam Investment said, "We expect emerging nations, first and foremost India and China, to drive demand for diamonds in the upcoming years, while consumption among developed nations is likely to moderate. On the supply side, the commissioning of new mines should be largely offset by depletion of mature ones."

I think at this point, we're entering the diamond market and treating it as a ground floor investment. Getting in right now into this type of investment I think is key to growing your portfolio as 2012 rolls on and as gold potentially starts to deteriorate as an investment."

Enter Harry Winston Corp (HWD: \$10.83*).



Harry Winston Diamond Corporation is a diamond enterprise with premium assets in the mining and retailing segments of the diamond industry.

The Company supplies rough diamonds to the global market from its 40% ownership interest in the Diavik Diamond Mine, located in Canada's Northwest Territories.

The Company's luxury brand segment is a premier diamond jeweler and luxury timepiece retailer with salons in key locations including New York, Paris, London, Beijing, Tokyo, Hong Kong and Beverly Hills.

The Company focuses on the two most profitable segments of the diamond industry, mining and retailing, in which its expertise creates shareholder value. This unique business model provides key competitive advantages; rough diamond sales and polished diamond purchases provide market intelligence that enhances the Company's overall performance.

Additionally being one of the world's leading rough diamond suppliers enables the company to use its strong client relationships to secure the highest-quality polished diamonds for its luxury brand division. By linking the production and retailing of diamonds, Harry Winston Diamond Corporation benefits from the market dynamic created between rough diamond producer, polished diamond buyer and retailer of fine diamond jewelry.

Annual Report 2011

The following was reported by the company in regards to 2011's earnings.

"Rough Diamond Sales

For the fiscal year, mining segment revenue increased 49% and earnings from operations improved by \$56.4 million.

The remarkable turnaround in diamond jewelry demand has been reflected immediately in rough diamond demand and therefore pricing.

The early part of the year was characterized by improved demand clearing out the polished diamond stocks, which had accumulated during the sharp and deep recession of the previous year.

This led to an abrupt recovery in rough diamond prices - always the more volatile segment of the market - as it became clear to the polishers that they needed to replace dwindling stocks.

The latter part of the year then saw demand accelerate as recovery in the traditional markets of the US and the Middle East was layered onto the new demand from the rest of Asia and India. Rough diamond pricing is now comfortably ahead of its pre-recession highs, and polished diamond prices are making significant gains as competition for supply replaces the polishers' need to sell. We are confident that rough diamond prices will continue to rise, and we have already seen a strong start this year."

In The End

In the end, because of diamond's supply issues and the increase in cost we'll see in it, Harry Winston is set to capitalize on the market's movement and this very well could be a very lucrative hedge against gold and the general direction of the market. I would recommend this position to be long, however keep a 20% stop loss on it.

*Indicates initial recommended price