

“Buying Jewelry: Gold and Diamonds”



With all jewelry, there are 4 components to the cost at retail (1) the material, (2) the workmanship/fabrications costs, (3) the retailer's profit, and (4) sales tax. The very low-end engagement ring is your local jeweler's bread and butter. A ring that cost them \$500 at wholesale is usually marked up about 200% to \$1,500. The more expensive the diamond, the smaller the markup. (A) There are fewer buyers, (B) they are more sophisticated, and (C) the merchant needs to make only one sale to realize a profit of \$5,000 or more.

You purchase a tennis bracelet. There are 2 oz. of gold = \$2,600, and 16 1/8 carat diamonds = 2 carats total = \$3,000. The fabrication costs are \$1,000, the dealer marks it up \$2,400, add the sales tax of 7% on \$9,000, and the total comes to \$9,630.

Three years later you need to sell it. The jeweler, who was so pleasant and solicitous, now seems like a different person. They are serious, and anything but sympathetic. “Doc, I’ll give you \$5,000”. You remind him that you paid almost double that just a few years ago. “Doc, the gold is worth \$2,600, but the diamonds are pretty small, and they all have inclusions. The diamond market is pretty soft right now, so they’re worth only \$2,000. You won’t get a better price anywhere (Unfortunately, probably true)”.

Point #1: With few exceptions, no matter the quality of the workmanship, in the end, all jewelry is worth only the “melt value” of the components.

Point #2: You want to buy as close to wholesale as possible. Except for watches, buy only preowned or antique jewelry at the jeweler or pawn shop, at an estate sale, or from someone (usually an elderly lady) selling their collection. Your goal is to avoid the (one-time) fabrication costs, the sales tax, and as much of the dealer mark-up as possible.

I recommend *Wealth, War, and Wisdom*.¹ Barton Biggs was a Wall Street icon, the ultimate insider, the antithesis of a guns, ammo, and liquor survivalist. He notes that once or twice in your life time, bad things can (will) happen. He provides multiple examples during times of conflict where people were able to purchase their freedom with their jewelry. I have an acquaintance whose family fled Estonia to Germany in 1944 to avoid the invading

Soviets, then made it from postwar Germany to the US with the money realized from her mother's jewelry. Baron Mayer Rothschild, the Warren Buffett of his day, recommended that 1/3 of your wealth be in stocks, 1/3 real estate, and 1/3 art and jewelry.

Point #3: I believe you should have 5% to 10% of your total net worth in “portable wealth,” jewelry, gold, art (which I will discuss in a future Editorial) and quality collectables. When things get bad, you can't take real estate with you, the government bonds of the losers will be worthless, and the companies in which you own stock may have been blown to smithereens.

If you are a hard-working physician who has been careful with your money, it's OK to buy some of the finer things of life. Your goal should be to have a quality watch with a gold (not gold-filled) case, gold cuff links, maybe a gold money or tie clip, several gold and jeweled necklaces (with or without matching ear rings), a quality string of pearls, 1 or 2 gold and jeweled bracelets, and gold and jeweled rings. You don't need to wear this all at once (like Mister T), but when you do wear selected pieces, it impresses the kind of people you want to impress: it looks snappy, it is heirloom-quality material that can be passed on for generations (this was grandma's wedding ring), and, as it relates to this discussion, it might be your ticket to freedom.

Disclosures

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1. Biggs B. *Wealth, War and Wisdom*. John Wiley & Sons; 2008.