South Carolina Consumer Affairs Report

SOUTH CAROLINA DEPARTMENT OF CONSUMER AFFAIRS, P. O. BOX 5757, COLUMBIA, S. C. 29250 1-800-922-1594

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NEW ADMINISTRATOR APPOINTED

The S. C. Commission on Consumers Affairs has appointed Steven Walker Hamm as the new Administrator and Consumer Advocate of the S. C. Department of Consumer Affairs. A total of 193 candidates applied for the top consumer affairs position which became vacant when Irvin D. "Pete" Parker who had headed the agency since its inception resigned the Administrator/Consumer Advocate position in July, 1981 to enter private business. According to Commission Chairman Emil Wald, the choice of Mr. Hamm was partially based on a decision not to break with tradition and continue to have an Administrator and Consumer Advocate who was an attorney although the recently amended law allows for the appointment of a non-lawyer as Administrator. Mr. Hamm has headed up the Division of Consumer Advocacy since July, 1978. He was born in Los Angeles, California and attended public schools in California, Arizona, Washington and Mississippi. He holds a Bachelor of Arts degree in Political Science from the University of California at Santa Barbara and a law degree (Juris Doctor) from the University of South Carolina. Prior to attending law school Mr. Hamm taught school in Sumter County, S. C. and worked with the 4-H Youth Program through the Clemson Extention Service. While in law school he was a member of the National Moot Court Team and a member of American Bar Association Moot Court Tean that won the Fourth Circuit Appellate Advocacy Competition. He worked as a law clerk, staff attorney and Assistant Consumer Advocate with the South Carolina Department of Consumer Affairs prior to his appointment to his present position. Mr. Hamm is a member of the South Carolina Bar Consumer Law Committee. He also assisted in creating a national organization consisting of state consumer advocate offices.

DIAMONDS

Bought any diamonds lately? Most consumers have very little experience in buying diamonds and for many their one and only experience may have been the purchase of a diamond engagement ring. The fact remains, however, that today diamonds are being widely advertised, not only as beautiful gifts, but also as a hedge against inflation. No one can argue about the beauty of a diamond. But whether a diamond is a good investment requires a look beyond the glitter. Most consumers do not have enough expertise to know a good diamond investment from a bad one. They read claims that diamond prices have soared in recent years. And the claims look pretty good compared to the return on their savings account. However, consumers who withdraw a large part of their savings to buy diamonds may find themselves the owners of something which is far less valuable than the cash they had. Such a mistake may be avoided if the consumer consults the following list of cautions for consumers thinking of buying diamonds. Before buying, consumers should carefully consider the risks as well as the possible benefits. Caution #1: Know Your Seller. Most people know that buying diamonds over the phone or through the mail from a company you have never heard of is not a wise thing to do. But the sales pitch for diamonds can be so appealing, many consumers do just that. If you are contacted by a company selling diamonds, investigate before sending a check. Unfortunately, there is no "registered diamond brokers" approved for their competence and honest business dealings. Consumers can contact the Consumer Complaints Department of the S. C. Department of Consumer Affairs on their toll free WATS line 1-800-922-1594 to see what information the Consumer Affairs agency might have about the company. You might also be able to get a report through your bank which would tell you something about the company's financial standing. Find out how long the company has been in business. Have the company demonstrate for you their ability to operate as promised. Claims made by salesmen or written up in pretty brochures should not be enough to convince you. If you cannot get satisfactory information about the company, do not deal with them. The risk may be very real and very high. Caution #2: Know What You Are Buying. Are you sure of the diamond quality? Most consumers cannot tell the difference between real diamonds and fakes. Even if you are assured a diamond is real, can you still evaluate its quality? Therefore, you might want a second opinion. Ideally, you should have an independent appraiser look at the diamond before you buy. However, this is often difficult, if not impossible, to do. You may also have to pay a fee for this appraisal service. Some diamond sellers will have appraisals done for you, but you have no way of knowing whether the appraisal is accurate. Others will sell you diamonds on approval and allow you a limited time to have them appraised. You could then return them if you are dissatisfied. If you are given this offer, make sure it is in writing. But it all comes down to this: When you buy diamonds, you have to rely on someone else's opinion. Make sure it is someone you can trust. Caution #3: Know the Worth of the Diamonds. Although experts might agree on diamond quality, they may not agree on the price those qualities should bring. A diamond's value as an investment is not the purchase price, but the price at which it can be sold. The fact is (unless you are extremely lucky) you will only get the wholesale price or less when you decide to resell. You may have to wait a long time until the wholesale price rises higher than the retail purchase price you paid. Beware of any advertisements offering diamonds at discount or wholesale prices. You can be fairly sure that the dealer is making a profit at those prices. That is simply good business. Caution #4: Investigate the Resale Market. Some diamond merchants tell you they will buy back your diamonds at the price you paid. Find out what their commission for doing this will be. Get the buy-back agreement in writing. Also, make sure you could easily locate the company again if you do decide to resell. Honest sellers can go out of business, too. What protection do you have if that happens? Check with local jewelers to see if they buy diamonds from consumers. Some will buy from consumers directly, but others do not want to be bothered. You may want to see what the situation is in your area before you buy.

Caution #5: Be Sure You Can Afford to Take the Risk. There are risks in any investment. Diamonds are no exception. No one can accurately predict the diamond market from one year to the next. Even claims about past increases in diamonds vary widely. You may have to hold on to your investment for many years in order to get your original investment money back. The wise consumer will not buy a diamond with money that may be needed for any of life's emergencies. If a sudden need arises, you may have trouble rapidly converting that beautiful diamond into hard cash. Caution #6: Know the "Extra Costs" Involved in Diamond Investments. You will probably want to buy insurance to safeguard your investment. Check the cost and availability of insurance before buying. Many people will put their diamonds in a safe deposit box in the bank. Find out what the rental costs will be. Also, your diamonds will not be earning any guaranteed interest or dividends, as many other investments do. Consider this "extra cost" when deciding. If you have weighed all cautions and decide diamonds are for you, be familiar with diamond terms; the more you can learn about diamonds, the less likely you are to make a costly mistake.

A GLOSSARY OF DIAMOND TERMS

Anyone considering investing in diamonds should be familiar with standard diamond terms. The more you learn about diamonds, the less likely you are to make a mistake. Here is a glossary of diamond terms:

Brilliant cut: A method of cutting a round diamond. The cut has at least 32 facets below and 24 facets around the girdle and are placed in precise symmetrical relation to each other. If this is done well, the maximum brilliance of the stone is obtained by the reflection and refraction of light.

Blue/White diamond: Used to describe a diamond which under normal, north daylight shows either no color or a blue color.

Carat: The unit of weight used to measure diamonds. If color, clarity, and cut are equal, the greater weight commands the higher price.

Clarity: Used to describe the imperfections in a diamond. The more serious the imperfections, the less your diamond is worth. The Gemological Institute of America uses ten categories from flawless (F) through imperfect (I) to describe the imperfections found in diamonds, although other grading scales may be used.

Color: Diamond colors range from colorless to yellow or brown. The GIA grades color on

a scale from D to Z. D is colorless and therefore the best. Z is most undesirable. The GIA scale is not universal; your jeweler may use a different one.
Cut: This means the proportion, symmetry, angles, and polish of the different surfaces or facets of the diamond. A poorly cut diamond will let light "leak out" instead of reflecting it and the diamond will be worth less to you. Quality of a diamond cut is not always graded. You have to rely on the seller's expertise and honesty.
Facet: Any plain polished surface on a diamond.
Flawless diamond: A diamond having no imperfections or inclusions visible to a trained eye even when magnified ten times.
Imperfection: Any internal or external flaw or blemish in a cut diamond.
Inclusion: Any internal flaw or blemish in a cut diamond.
Industrial diamond: A non-gem quality diamond suitable only for industrial tools.
Perfect diamond: Same as "Flawless diamond."
Point: A unit of weight used to measure diamonds: 100 points equal one carat.
Setting: A mounting which holds the stone.
Single cut: A method of cutting a small stone, using only 18 facets.
Treated diamond: A diamond altered by coating, laser drilling, etc., to artificially improve or change its color or appearance.

INVESTING IN GOLD

It has only been since December 31, 1974 that Americans have had the chance to buy and sell gold. This change came about at that time as the result of new legislation. Many consumers consider gold a hedge against inflation. The theory is that the price of gold goes up faster than the rate of inflation. However, the price of gold is not determined by supply and demand alone. Speculation drives up the price, which can make trading or investing in gold very risky. What should you look for when buying gold? First and foremost is the warning for consumers to buy from a reputable dealer. Large banks, commodity exchanges and companies that manufacture and sell gold have high standards for insuring its quality. This is important because the marking that indicates the gold's quality can easily be falsified. It is also risky to buy gold through the mail. When silver was first advertised for sale through mail order many consumers who thought they were getting a bargain were defrauded because their orders were never filled. The same thing could happen if you bought gold through mail order. Again, know who you are dealing with. If you are going to buy gold, the Treasury Department advises that there are certain markings you should look for on the ingot. First, look for the stamp of the company that made the gold. All quality gold ingots or bars have this stamp. Also, look for the "fineness" number indicating the percentage of gold in the bar. This number can range from .995 to .9999 (the best). Finally, look for the weight of the gold. The weight should be marked on the ingot in a permanent way. Consumers would also be wise to speak to officials in your bank or to your stock broker. In addition, you may want to contact the commodity exchange in your area for information about companies that are selling gold and about buying gold contracts.

INVESTING IN STOCKS

For the uninitiated, investing in stocks can be like buying something sight unseen. Without reliable information or advice, it can be a risky proposition. Consumers should always investigate before they invest, especially if a stranger contacts them by telephone. Some reputable brokerage firms use a telephone contact but so do many confidence men. Be cautious. From time to time, high-pressure telephone sales operations peddle stocks by phone, emphasizing potential profits and downplaying the risks. But generally, these fly-by-night telephone operations do not offer the business reputation, reliable information, and objective advice you need when making a wise investment. Ask them to put all of the promises in writing and mail the information to you. Since no one can guarantee investment success, they may balk at making extravagant claims in writing. But scrutinize the information you do get if you are still interested in the deal. Be skeptical when the deal sounds too good to be true. For instance, how did they get your name? Are you on someone's sucker list? And if it is such a good deal, why are they offering it to strangers and not just to their regular customers? To protect yourself, talk to known reputable stock brokers. Get all the information you can. Since stocks are only as good as the company or venture you are investing in, ask the seller for a copy of the prospectus or offering circular filed with the Securities and Exchange Commission. Other sources of information are a company's annual report, the 10-K report if filed with the SEC, or an investment analysis by a private broker or investment advisor. Then get competent advice to help you analyze this data. Sources of help include bankers, brokers, investment firms, and knowledgeable friends or associates. Finally, remember that stock speculation is for experts. Never buy on unfounded tips or rumors. And before investing at all, have enough cash and ready assets to cover the necessities of life plus extra savings for emergencies. Another rule is never to invest money in stocks you could not afford to lose. But the single most important thing to remember about investments of any kind is simply that you should always 'investigate before you invest.'

ADDENDA

It appears that there never was a time when gold, silver and precious stones were not considered valuable. It seems that from the time men first stumbled upon nuggets of gold and precious gems in streams and outcrops they knew they had found something special. The gold was heavy and beautiful. It shone with the color of the sunset and never tarnished. And it was malleable enough to be worked into wonderful shapes. Gold was so prized that later it became the money of ancient lands, enabling them to trade with each other more easily. The first gold coins date back to about 5600 B.C. Today, gold coins and precious stones are still prized, perhaps more than ever. One of the characteristics of gold and precious gems is that they retain their value across time. And during inflationary periods, these precious items often remain stable in the only true measure of money: purchasing power.

However, investing in gold, silver and precious stones can be a dangerous venture unless the consumer knows what he is doing or where to get the advice necessary to make such informed decisions. It is hoped that this issue of our newsletter may share valuable information to consumers on the subjects of investments of various types.

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