

RELIANCE ON APPRAISAL TOOLS



The Appraisal Foundation recently published the first Exposure Draft of a proposed new Advisory Opinion to be titled *Use of Technology in an Appraisal or Appraisal Review Assignment*. The rationale behind this opinion posits that “appraisers must continuously improve their skills to remain proficient; this is especially true when new technological tools are introduced into the appraisal workflow. Although technology can enhance efficiency, support analysis, and assist in communicating assignment results, it also introduces issues related to ethics, confidentiality, record keeping, and the credibility of an appraiser’s assignment results.”

What really struck me, though, was one passage in the draft itself under the heading “The Appraiser’s Responsibility”: **A tool cannot comply with USPAP. The appraiser decides whether to use a tool and whether reliance on its output is appropriate. When the use of a tool is appropriate, the appraiser must determine if reliance on the output produces credible assignment results. If an appraiser relies on a tool’s output without applying their own analysis of the information consistent with the scope of work, the work does not comply with USPAP. In that case, the appraiser has relied on a tool’s output in place of their own analysis, resulting in work that is not credible.**

While this proposed Advisory Opinion is being drafted largely to address concerns around new automated and artificial intelligence tools, it will also apply to *all* analytical tools used in an assignment. Reviewing the draft reminded me of an article I wrote back in 2016 about how the use of appraisal software programs – while an excellent tool, and one which I utilize myself – can also have its drawbacks, and lead to unintended consequences. The original article follows, with a very few, minor updates.

The advent of software specifically designed for generating professional, consistent appraisal reports has been, of course, a terrific help to those of us who use such programs. The ability to simply plug in measurements and other parameters while examining an item, then allow the program to do all of the math to estimate a gemstone’s weight, and finally produce an easily readable, proficient-appearing report seems, on the surface, like a dream come true. However, I believe there is a serious downside to all of this technology.

Software may have speeded up and streamlined the process of producing reports, but I feel it has also led to lazy appraising. While this can certainly be a problem for seasoned appraisers, it can be downright dangerous for newbies who don’t understand the methodology behind all of that wonderful plug and play technology.

It is so tempting to let the software do all the work. Depending upon the program, you can simply enter in the quality of a gemstone, pre-set the average markup in your geographic area, and out pops a “value.” But is this good appraisal practice? We cannot get caught up in the rote repetition of simply plugging in numbers and expecting a supportable, accurate value to come out the other end. We must remember, and also *practice*, the methodology behind these helpful programs. We must do our due diligence on every report we produce. When the Guide, for example, gives us a range of values for a particular stone – terrific! But that’s not enough. Remember, we must use the *mode*, or the most frequently occurring price, to determine the value of a given item or component. In many cases, the cost approach is not the correct approach.

When was the last time, other than for an unusually-cut gemstone, that you actually pulled out Charles Carmona’s excellent weight estimation book and used his formula and a calculator to determine an approximate weight? And for some of you newer appraisers, have you *ever* actually done this? When was the last time you looked at your ‘boilerplate’ limiting conditions, assumptions, or Certification of Appraisal Practice? Are all the elements of your report up to current USPAP and NAJA Report Writing Standards?

I challenge you to try writing a report from start to finish without using software. Manually make all of the calculations, look up the formulas, and search the online versions of price guides such as Rapaport and The Guide. Create a template of your own, just for fun, starting from scratch and following the NAJA Minimum Standards. Our reports are serious business. Could you explain the methodology behind each and every element on your valuation page, if you had to do so in court? That is the high standard we are supposed to uphold.

It is important to remember that pricing guides and appraisal software are just tools – tools which we must employ *along with our knowledge and experience*, to produce credible results. We must fully understand the reasoning, the formulas, and the methodology behind the programs. Never lose sight of the fact that there is a purpose behind every step in the appraisal process, from examination to valuation to reporting. The competent appraiser uses the correct tools to assist in developing and preparing a report that is credible, relying upon their knowledge and experience to do so, and must be able to defend the value conclusion regardless of the methodology and technology used to reach it.

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