Liberty's Outlook

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Roller Coaster Markets Spur Flight To Safety!

The front page of this morning's *The Wall Street Journal* puts it succinctly, "The stock market staged one of its biggest declines and one of its biggest recoveries—all in the same day."

Yesterday, a notable percentage of investors who had financed their stockholdings received margin calls. Many of them, worried that prices might fall further, simply sold out their holdings, further depressing the market.

As I write this, the Dow Jones Industrial Average is down about 6% from its recent all-time high; the NASDAQ is about 17% below its peak of less than four weeks ago. Brokers report that many investors, uncomfortable with this volatility, have bailed out of the stock markets.

Generally speaking, in this long bull market in stocks, investors have accepted temporary pullbacks. However, the prospect of losing 10% of the value of one's holdings in a few hours has sobered the amateur investor to the reality that loss of capital could happen at any time. A growing percentage of them have decided that the risks of loss aren't worth the possible long-term appreciation.

Stock market investors have a lot to worry about. Rising interest rates and high oil prices are starting to cut into corporate profits. The U.S. dollar is near a 12-month low against the Japanese Yen. A larger than usual number of internet start-ups are running low on cash reserves and on ideas to generate new cash flow.

The investor money that has been withdrawn from stocks has to go somewhere. Treasury debt has been a popular short-term destination, leading to a 10% drop in the effective interest rate just this week!

To a lesser degree, some of this money has been flowing into the safety of precious metals, contributing to a roller coaster ride in those markets.

The Roller Coaster In Precious Metals

Gold: For most of March, gold stayed quiet, ranging from the mid-$280s to the low $290s. It hit an interim high on March 21 when the latest Bank of England gold auction sold at above-market prices. Gold appeared to have consolidated a base following the early February surge. Then "the rumor" began to circulate.

According to the rumor, the French central bank was looking to liquidate almost all of its gold holdings in order to prop up its underfunded Social Security system. Such a sale, were it to happen, would unload 80-85 million ounces, almost 10% of <u>all</u> official gold holdings, on the market.

The rumor said that the French would either violate the terms of the gold sale limitation agreement to which they consented last September or that they would dump their gold as soon as the agreement expired. If either circumstance were to come to pass, the price of gold would return to last summer's doldrums.

The rumor carried an element of truth. The French government's retirement program is horribly underfunded and is sinking further. It needs to find a solution somewhere

However, the rumor ignored the fact that the amount such a gold sale would raise would be less than $25 billion, not sufficient to permanently cure the fiscal problem. That, plus the French government's long-term strong advocacy for holding lots of gold, created a lot of doubt. The French government quickly and firmly denied that any gold sale was even contemplated.

Nonetheless, the psychological damage had been done. Gold declined from a close of $284.75 on Friday, March 24 to settle at $275.75 on Wednesday, March 29.

With gold unexpectedly below $280, physical investors, some using money they had pulled out of the stock markets, began buying. Demand was up sharply in Asian markets. LCS also enjoyed a noticeable surge. On March 31, we had our highest retail gold sales day in almost seven months!

After touching bottom at $275.75 on March 29, the bargain-hunting demand from Asia and the safety-seeking demand in the U.S. brought prices back up, to an intraday high above $289.00 yesterday.

That recovery was too quick. Short-term profit taking knocked gold down to close today at $281.00.

Gold seems to have established a firm long-term floor at around $280. When prices get that low, Far East Asian and Indian demand takes off. In addition, with higher oil prices, rising gold demand from the Middle East has reversed much of last year's decline.

I am not predicting that gold will soon top $300 once more, but it could. At today's price, there seems to be little downside risk.

Silver: There was little fundamental news to affect silver trading in March, with the result that prices experienced a quiet month. Most of the movement appeared to be sympathetic with the ups and downs of gold prices.

When gold hit its low on March 29, it also brought silver down under $5.00 to close at $4.96, its lowest close since June

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8, 1999. As with gold, prices recovered within a few days to settle yesterday at their highest price in over a month.

Compared to gold, there is relatively little activity in the silver market. The former stock market money that has gone into precious metals appears to be concentrated in gold for now. But that could change abruptly as new gold investors start investigating the huge silver shortage of the past decade.

The physical silver market is much smaller than gold. Worldwide demand last year came to less than $6 billion. If even a small amount of ex-stock market money finds its way into silver, the roof could blow off quickly.

Platinum and palladium: These two metals are far more dependent on Russian politics and South African labor strife than on the flight to safety out of the U.S. stock markets.

Platinum experienced more profit-taking following its February surge, fueled by the expected resumption of shipments from Russia. Prices hit an interim bottom in early March, then rebounded more than 10% in the next few weeks.

As far as I can tell, Russian exports have not yet happened. What is now carrying a larger impact over the market now is the possibility of a major work stoppage at the world's largest platinum mine located in South Africa.

The Zurich platinum price had jumped to as much as $20 above New York levels. During March, that premium dropped at least $5. Once result has been the decline in the premiums on U.S. Platinum Eagle coins, which the U.S. Mint sells to its primary distributors on the basis of Zurich prices.

After touching record levels in February, palladium has gradually declined due to profit-taking, with prices now more than 25% below its peak earlier this year.

Platinum and palladium are both much thinner physical markets than gold or silver. As a result, buy/sell spreads are wider and liquidity (especially for palladium) might be a problem. Although the chance for appreciation might be better for platinum or palladium (especially the latter) than for gold or silver, for most people I do not recommend adding any more to your holdings. The risk is just too great.

U.S. Treasury Warns It Will Run Out Of Silver In 2001

To meet demand for the U.S. Mint's Silver Eagle Dollar, silver proof set, and silver commemorative programs, the U.S. Treasury has been drawing down its silver stockpile.

In March, the Treasury announced that it has less than 20 million ounces left. By the end of 2001, it will have to begin purchasing silver on the open market.

The demand for silver for coinage purposes comes to only about 2% of worldwide silver demand. It is comparatively unimportant.

Using past experience as a guide, I expect that the price of silver will jump in price when the U.S. Treasury actually begins to buy silver on the open market. This increase will be enhanced for psychological reasons beyond what the relatively small amount involved would warrant.

LCS Staff And Michigan Governor On The Internet

Although Michigan Governor John Engler signed into law a sales tax exemption for the retail sales of rare coins and precious metals as of July 7, 1999, it took a while to arrange the ceremonial signing of the law.

Last week, General Manager Pat Heller and Chief Numismatist Allan Beegle were on hand for this ceremony. A photograph of the governor, State Senator Bill Bullard (the bill's sponsor), the two of us, two other dealers who contributed a lot of time to passage of this law, and Senator Bullard's chief of staff have been posted on the internet.

To view the photograph, go to www.gop.senate.state.mi.us/photowire. The photo number is 954361626. If we have only met by telephone and mail, here is your opportunity to view two of the faces behind the voices.

LCS Gives Back To The Community

Our sales volume has soared over the past couple of years. The excitement over the new State Quarters and the Sacagawea Dollar has prompted an amazing outpouring of public interest in coin collecting. To thank the greater Lansing community for such support, we have two programs underway:

1. Donation of Statehood Quarter Maps to Schools. We have already donated almost 200 of these huge maps to every third and fifth grade classroom in almost 50 public and religious schools. As time permits, we plan to donate more maps to the remaining religious, private, and charter schools in the Lansing area.

When making the presentations, school principals tell us that their students have requested this kind of educational tool in their classrooms.

2. Sponsorship of Children's Programs at the Upcoming MSNS Convention. The Michigan State Numismatic Society will hold its 44th annual Spring Convention at the Kellogg Center on the Michigan State University campus May 19-21, about one mile from our store. LCS is underwriting a substantial portion of the expenses of an extensive children's program.

Among planned children's activities are a Coin Trivia Treasure Hunt (Do you know how many members of the Lansing Coin Club have designed a U. S. coin struck by the Mint?), a table to accept design ideas for the forthcoming Michigan state quarter, school field trips, Boy Scout and Girl Scout programs, a children-only coin auction, a Silver Eagle Dollar coloring contest, and a donation of reference books to the library of the school that has the greatest number of students attending the show.

The U.S. Mint is considering setting up their own booth, with their own selection of goodies for the children. If they do, it would be only the second time in the last 16 years they have come to Michigan.

The flyer describing the children's programs has already been distributed to thousands of students and teachers—and we are just getting started. If you would like a copy of the flyer, please call or stop by our store.

Gold and Gold Coins

Gold closed today at $281.00, down $10.25 (3.5%) from last month.

The roller coaster ride of gold spot prices over the past month has masked a significant development in gold bullion coin premium levels.

For Y2K protection purposes, demand soared more strongly for the U.S. 1 Oz **American Eagle** (3.5%) from mid-1998 through the end of 1999 than for any other gold coin or ingot. When the world did not come to an end on Janu-

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ary 1, 2000, enormous quantities of American Eagles and lesser amounts of other gold coins were liquidated.

The heaviest selling occurred in January, though we are still buying modest amounts of Y2K liquidations.

With the physical gold market flowing overwhelmingly in one direction in January, wholesale bullion dealers kept dropping their buying formulas relative to spot. Retail selling premiums fell for a wide range of issues.

The premium on American Eagles declined so much, in fact, that for much of this year retail customers could buy 1999 and older dated coins for less than the U.S. Mint was charging primary distributors for 2000-dated coins!

In the past month, the wholesale market has begun to turn around. As smaller quantities were being liquidated and the physical market became less volatile, wholesalers first reduced their buy/sell spreads. Then they began to increase their bids relative to spot on the issues that had suffered the most. As a consequence, the premium of an American Eagle has risen 0.5%, about $1.50 per coin, in the past few weeks.

Other bullion coin issues and ingots have yet to follow suit, but I think they are on the brink. In my judgment, the ultra-low premiums that retail buyers have enjoyed so far this year will gradually rise to normal levels of the past.

With demand now driven by attractive fundamentals and not influenced by near-panicky Y2K precautions, there is little chance of seeing a return of the too-high premiums of a year ago.

If you were planning to take advantage of both low premiums and low spot prices, I recommend making your gold purchases sooner rather than later.

The best buys continue to be the Austria **100 Corona** (2.0%), U.S. **American Arts Medallion** (1.8%), and South Africa **Krugerrand** (2.2%).

Among small size gold coins, the best deals are the British **Sovereign** (5.4%), French **20 Franc Rooster** (6.3%), and Swiss **20 Francs** (6.3%). Among them, I prefer Sovereigns. They are among the world's most widely traded gold coins. While the French and Swiss pieces are good gold, a high percentage of those coins are restrikes, coins that were struck years or decades after the date on the coin.

Like bullion issues, premiums for **Common-date U.S. Gold Coins** have declined in the aftermath of Y2K liquidations. Prices for a number of high grade issues are the lowest they have been in 15-20 years! We have served some savvy bargain hunters taking advantage of this opportunity, but there are not enough of them to turn around the market quickly. Common-date U.S. Gold Coins are readily available at shows, despite their lower prices. I think they represent solid values at today's levels but there is not necessarily any urgency to buy them quickly.

Instead of picking up common-dates right now, there are better alternatives—if you can find them. Many **Better-date U.S. Gold Coins** have 10-50 times the rarity of common issues, yet often sell for surprisingly close to the price of common-dates. Collectors are snapping up these rarities as fast as they come onto the market. But, because of low prices today, relatively few such coins are being sold onto the market.

You do need to be careful with Better Date U.S. Gold Coins. Some issues are overpriced. In the past, before grading service populations helped provide a more accurate idea of true rarity, some issues were thought to be rarer than we now know. Prices for many of these coins have not dropped to reflect their actual lesser rarity.

Just yesterday, we were offered a group of MS-63 and MS-64 1912 $20.00 Saint Gaudens. This is a desirable low mintage date, where lesser coins can be bought comfortably close to common-date prices. However, it is much more expensive in MS-63 and MS-64 grades than other low mintage dates with comparable MS-63 and MS-64 certified populations. In my judgment, these coins were overpriced about 50%, even with a huge discount that we were offered. We passed on the deal.

As the flood of new collectors expand their interests beyond Statehood Quarters, proof sets, and Silver Eagles, I expect common-date U.S. Gold Coins to benefit before the rarer issues. However, I expect carefully-selected scarcer issues will perform even better over time.

I'm certain there will also be increased interest in world gold coins from new collectors. For instance, I expect affordable world gold coins will be a popular way for American collectors to enjoy their ethnic heritage! Because of this nation's ethnic makeup, that should bring strong demand for European issues. Our enclosed offering of **Gem Mint State-65 Poland 20 and 10 Zlotych Gold Sets** are a perfect example. See our offer for details.

Silver and Silver Coins

Silver closed today at $5.11, up three cents (0.6%) from a month ago.

Compared to the past several months, silver was quiet in March. The temporary drop below $5.00 last week surprised me. The almost instant recovery above $5.00 did not surprise me at all.

For more than ten years, there has been a continuing huge deficit of silver supplies coming onto the market to cover soaring industrial demand. Most of the silver inventory stockpiles as of the end of 1989 have been consumed covering this shortage. Yet, there is still a psychological perception that silver is in plentiful supply.

One reason why some people may think that silver's future is less than rosy is the appearance of digital and low-silver APS cameras. Despite their growing usage, however, worldwide demand for silver in photography is still rising. Within a decade, I expect that demand to reach a plateau.

Long before the silver needed for photography stops rising, I foresee that the demand for silver for antibacterial and other health applications will take off.

Silver has the advantage over antibiotics in that it kills bacteria by a physical process against which mutating germs cannot become immune. Almost every month, new medical uses are introduced. Health applications for silver are still in their infancy, but it is a market sector destined for huge growth in the next few years. Because of this, I expect global silver demand to continue rising for the indefinite future.

Although new mining supplies of silver has been growing, the silver obtained from primary silver mines barely covers 12% of total demand. Even if the price of silver doubled, I don't see how supply could rise quickly enough to catch up.

Still, the market perception right now is that there is enough silver around to cover demand for the time being. As a result, the price of silver is now resting at about 1/3 of its inflation-adjusted average price over the past 30 years. Over this same 30 years, demand for silver has exceeded supply.

The foregoing information tells me two

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things:

First, the price of silver is destined for much higher levels than those of today. It is a question of when, not if.

Second, silver is volatile enough that it could break upward at almost any time. Since the bullion boom of 1979-1980, we have seen silver quickly jump 40% or more on several occasions. Therefore, there is no better time than right now to add some silver to your hard asset holdings.

While we are in this calm-before-the-storm, U.S. **90% Silver Coin** (1.1%) remains an exceptionally attractive form of silver to purchase. U.S. **40% Silver Coin** (8.1%), **100, 10, and 1 Oz Silver Ingots** (3.9%-10.8%) are also good values now. But with its price advantage, superior liquidity, greater divisibility, and its better familiarity to the general American public, I would stick with 90% right now.

The latest supply crunch in **U.S. Silver American Eagle Dollars** (83.2%-90.0%) with the 2000 date has subsided. The influx of new collectors is still snapping up earlier-dated issues in impressive quantities. It may take until mid-2001 for these coins to return to their reasonable premium levels of two years ago. In the meantime, they are fun to own for a collection, but don't buy them as a silver investment.

Last month I noted several categories of U.S. coins where dealer inventories have been shrinking in the past few years, at the same time that collector demand is rising. Many of these categories were U.S. silver coins.

I made a serious omission from that list. We recently purchased a nice type set of U.S. coinage spanned all the way from the late 1700s to recent times. I was stunned when almost every pre-Civil War coin in this collection sold quickly to eager collectors. In talking with the collectors, I better appreciate how little attractive early U.S. coinage is in dealer inventories.

That discovery came after I had already purchased the largest group of **Extremely Fine and About Uncirculated Capped Bust Half Dollars** that I had seen in several years. This lot of coins has been sequestered until the mailing of the offer with this newsletter. Now that I better understand the depth of collector demand for early U.S. coinage, I believe they are even more likely to go quickly.

The Month

Gold Range	$ 16.25	5.6%
Net Change	-10.25	
Silver Range	.18	3.5%
Net Change	+.03	
Gold/Silver Ratio	55.0	
Net change	-2.3	
Platinum Range	53.00	11.3%
Net Change	+34.00	
Platinum/Gold Ratio	1.78	

Date	Gold	Silver	Platinum
Mar 01	291.25	5.08	467.00
Mar 02	288.00	5.02	452.00
Mar 03	288.75	5.10	464.00
Mar 06	288.00	5.06	465.00
Mar 07	292.00	5.07	469.00
Mar 08	289.00	5.07	468.00
Mar 09	291.00	5.08	469.00
Mar 10	288.25	5.06	470.00
Mar 13	290.00	5.07	476.00
Mar 14	288.25	5.09	478.00
Mar 15	288.50	5.13	478.00
Mar 16	286.00	5.09	482.00
Mar 17	284.25	5.09	486.00
Mar 20	285.50	5.03	488.00
Mar 21	289.75	5.13	492.00
Mar 22	287.75	5.13	494.00
Mar 23	284.75	5.09	479.00
Mar 24	284.75	5.12	478.00
Mar 27	280.00	5.09	474.00
Mar 28	279.50	5.08	479.00
Mar 29	275.75	4.96	473.00
Mar 30	276.00	4.96	478.00
Mar 31	278.50	5.02	496.00
Apr 03	277.75	5.04	490.00
Apr 04	284.00	5.14	505.00
Apr 05	281.00	5.11	501.00

London Silver Market Premium Over New York Silver Market = 0¢

Gold, silver and platinum quotes are working spots at 2:45 EST each day, quoted in U.S. dollars per troy ounce.

Currency Market Stays Hot

I can name one market that has been strong even longer than the U.S. stock markets: U.S. paper money.

Over the past few years, I have gotten nervous that the currency market has to plateau sometime. And it will—someday.

Right now, the number of collectors entering this numismatic sector just keeps growing. Even areas that were left out of the early stages of this bull cycle, such as Fractional Currency and Colonial Currency, have enjoyed surging demand in the past 24 months.

Uncirculated U.S. Large Size Paper Money has become almost impossible to find except at eye-popping prices. Our inventory of Fractional Currency is less than 20% of what it was two years ago. We have sold more Colonial Currency in the past year than in the previous several years combined.

We have quietly acquired an attractive group of Colonial paper money issued by the Continental Congress—the infamous **Continental Currency**. Prices for these historic issues are on the way up. When this group sells, we will probably have to raise prices again. See the flyer for details.

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