

# Liberty's Outlook

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## Gold Hits Two Year High Over Middle East Turmoil!

### Silver, Platinum Also Strong As Investors Seek A "Safe Haven"

In the past two months I detailed a number of factors pointing to near-term strength in the precious metals and rare coin markets.

And, for the past two months, precious metals and rare coins have been strong for just those reasons—accounting questions about the value of paper assets, bankruptcies and major losses at huge companies, falling gold mine supplies, mining companies reducing their hedged sales of future production, a myriad of financial crises in Japan, and so forth.

For example, Tanaka Kikinzoku Kogyo KK, Japan's largest seller of gold bullion, said its February 2002 sales were 900% higher than they were in February 2001!

Fund tracker Lipper Inc. just reported that gold-based mutual funds, up 36.7%, were the runaway winners in the first quarter of 2002—their largest gains since the 4th quarter of 1993.

As news of investors making market-leading profits with gold investments spreads through the market, it will almost certainly encourage even more near-term investment in gold and gold-related assets.

When gold reached \$300 last week, our sales volume rose substantially. There were fewer tire-kickers and more buyers.

Still, no one can ever anticipate all the factors that affect the prices of gold and silver. In my discussion of the past two months, I never factored in the potential escalation of violence in Israel, Palestine, and surrounding areas.

This fear of even greater violence, along with threats of halts in oil exports from Iran and Iraq, became the dominant reason behind rising gold prices yesterday. Gold prices peaked near a two year high before profit-taking knocked down prices a few dollars today.

### Watch Out For The Middle East (and other new developments)

**The Middle East.** The problems in the Middle East are deeply troubling. They have gone on for the better part of a century (some would say they go back for over a thousand years). None of the attempted solutions to the dispute between the Jews and the Moslems have worked to quell further violence.

Each side fears that any concessions or compromises will threaten their survival in that part of the world. Beyond that, each side is demanding that the other make concessions in order to help bring a peaceful settlement.

In this stalemate, the Israeli military and Palestinian suicide bombers continue to inflict greater death and destruction on the "enemy." There is widespread despair of finding any peaceful solution.

Iran is attempting to widen the scope of this dispute by proposing that all Arab nations stop exporting oil to the U.S. until America puts pressure on Israel to meet some Palestinian demands. Iraq has stated that it would join the export ban. Saudi Arabia, however, is quietly using its influence to stop or at least diminish this attempt at economic warfare.

President Bush announced that he is preparing to send U.S. troops to the region, ostensibly to serve as non-combatant "monitors." However, I think that is a horrible plan as it would give Palestinians more targets to kill, leading to possible global escalation of violence.

With the greater uncertainty over oil supplies and the heightened risk of war, the prices of "safe haven" assets like gold, silver, platinum, and oil have hit multi-month and multi-year highs. Prices were up so much that some profit-taking occurred today.

Any serious disruption of oil supplies to the U.S. would severely hurt the profitability of publicly held U.S. companies, thereby leading to a drop in stock prices. It would also further cripple Japan's efforts to deal with its economic troubles.

As a consequence, the troubles in the Middle East could easily end up clobbering the value of the U.S. dollar. Gold is safe because it does not depend on government promises. It is desirable because an ounce of physical gold today will still be an ounce of gold tomorrow. It is an ultimate form of financial "insurance."

There is the continuing real fear that any further deterioration in the Middle East could cause gold to quickly break upward to the \$350 to \$400 while the values of the U.S. dollar and of stocks and bonds decline.

While the other factors I have discussed should support a rise in the price of gold, a major flare up in the Middle East is one that could cause a major jump in price in a very short time.

With this in mind, professional traders and investors as well as the average investors have been loading up on gold lately. Here are some examples.

**Swiss National Bank Gold Sales.** For the first 18 months of its five years plan to sell roughly half of its gold reserves, the Swiss National Bank had steadily sold an average of 24-32,000 ounces of gold each

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trading day. Without explanation, its daily sales over the past ten days have dropped to less than 15,000 ounces. One can infer that the Swiss National Bank's gold traders anticipate higher prices soon, and are restructuring their sales strategy to take advantage of them.

**Canadian Gold Mines Holding Back Gold.** In Canada, two gold mining companies, Goldcorp Inc and Iamgold, have taken the unusual steps of holding back some of their newly mined gold from immediate sale on the market. At last report, Goldcorp had built up an inventory of 35,000 ounces of gold and Iamgold had stockpiled 22,500 ounces as part on an ongoing accumulation program.

As Iamgold Chief Operating Officer Todd Bruce said, "It's a logical step if you believe in gold. Why sell gold to buy US dollars if you believe the US currency is likely to drop?"

## Where Is The Gold Market Headed?

With the price of gold up 8% since the start of the year while stock and bond markets have stagnated, mainstream investors are starting to take notice and to take action. Some mutual funds have been adding gold and gold-related investments to their portfolios (see my quote by Fidelity's North American fund manager John Muresianu in last month's *LO*).

The trend over the past few months is for gold to surge in price until profit-taking sets in. The following decline in prices, however, has consistently bottomed higher than the previous low. To technical traders, that is a major signal of a continuing bull market.

There are, however, other factors that cast a negative pall on the future of gold. The German Bundesbank is one of the defendants charged in the GATA lawsuit with trying to manipulate downward the price of gold.

Last month, Bundesbank President Ernst Welteke floated a trial balloon that the Germans might start selling some of their

gold reserves starting in 2004. When that announcement did not stop the rise of the price of gold, he stated in an interview last week that the bank was planning to make such sales.

In conjunction with that announcement was a statement that the declining supply of gold from the mines as they reduce their forward sales positions may "force" central banks to increase their future gold sales.

Another development was entirely expected. Gold prices have risen so high that demand in India is falling. For the second quarter this year, demand in India is expected to drop at least 15-20% from year ago levels.

The effect of these negatives will be far outweighed, in my judgment, by all the positive factors supporting a stronger gold price in the medium term.

There is a real possibility that gold could break sharply upward in the near future. Even if it doesn't, the overall trend says that now is a good time to buy. If you don't already have at least 5% of your net worth in gold bullion coins and bars, you may want to take prompt action.

## International Gold Standard Coin Proposed!

The Prime Minister of Malaysia, Mahathir Mohamad, recently proposed that the Islamic world adopt the gold dinar, a historic Islamic denomination, as a standard of value against which all currencies could be measured.

Mohamad, considered a moderate in Islamic circles, may actually have a solid idea. Actually, an ounce of gold is the standard of value against which all currencies are measured, despite central bank protestations that gold is a dead and useless relic. There really isn't any need to create a gold coin in lieu of bullion except that it would represent a public declaration of the continuing importance of gold in worldwide finances.

Such an issue would bring the governments of the world a bit closer to estab-

lishing a gold standard, a move that would impose greater fiscal discipline on nations. While it would not be ideal (I personally think that the free market can best select the optimum medium of exchange, which might turn out to be gold, but not necessarily) it would be much better than the present currencies not backed by anything other than the promises of politicians.

However, proposing an Islamic coin for this purpose may create enough dissension among non-Islamic countries (which, by the way, may be one of the purposes of making the proposal) that the project will probably never get off the ground. Were a culturally neutral coin suggested, instead, the chances for something eventually coming about would be much higher.

Even if this proposal doesn't fly, I anticipate that global financial requirements will necessitate the development of something similar.

## Don't Forget About Silver!

Despite all the attention focused on gold, silver is up 16.5% since November 29! Although it is likely that some of the interest in silver has been in sympathetic reaction to the strong gold market, it is also possible that the long-term fundamental silver shortage is starting to boost prices.

The industrial and medical uses for silver just keep growing. The use of silver in superconducting wires may increase global silver consumption 10-25% all by itself within the next few years. Even if silver consumption for photography purposes stops growing, total demand is almost certain to grow for the indefinite future.

Silver production, on the other hand, is almost guaranteed not to keep pace with rising demand. About 80% of all newly mined silver is a by-product or co-product of gold, lead, zinc, and other mines. A major rise in the price of silver would not provide enough in-

## Not All Silver Bullion Coins Are Created Equal

As I have described in the past few months, one of our major national competitors has found it easy to offer what used to be considered common U.S. silver coins at semi-numismatic prices. As supplies dry up in one niche, such as circulated Walking Liberty Half Dollars, they expand the product line to another niche. This company has sold enough product that it has had a real effect on what is still considered as "common U.S. 90% silver coins."

For example, the latest promotion includes circulated 1964 Kennedy Half Dollars. Coupled with the effect of prior promotions of the Walkers and of circulated Franklin Half Dollars, it is now virtually impossible to purchase any 90% Silver half dollars at the same price as 90% Silver quarters or dimes!

Don't pay extra for half dollars! It is unlikely to be as profitable in the long run. In a major run up in silver prices, it is virtually certain that you will be paid the same price for U.S. 90% silver coin, regardless whether it is dimes, quarters, or half dollars. So, if you are looking for semi-numismatic coins that do have attractive potential, call us for alternative suggestions.

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centive to increase production at such mines—as proven in the past.

On an inflation-adjusted basis, the price of silver is close to its lowest in the past four thousand years. With current low prices, a continuing huge deficit, and dwindling inventories, silver seems primed for a massive jump soon.

I know that others are forecasting silver to reach at least \$60. I'm much more conservative. It wouldn't take that much for silver to reach \$10.00. Once it gets there, it could overshoot and maybe even make it to \$20.00. I suspect that a long term equilibrium price is somewhere around \$15.00.

Obviously, at today's silver price of less than \$5.00, there is tremendous profit potential. So, even though gold is attractive right now, I think silver deserves equal consideration of at least 5% of your net worth.

## Gold and Gold Coins

Gold closed today at \$302.50, up \$9.00 (3.1%) from four weeks ago.

Yesterday, the price of gold reached its highest U.S. close in two years when it settled at \$306.00.

Rising demand for physical gold has led to slight premium increases among the low-premium issues. Still, the U.S. **American Arts Medallion** (2.4%), and Austria **100 Corona** (2.5%) are the best deals with the South Africa **Krugerrand** (2.7%) also worth consideration.

Among higher premium gold bullion coins, we saw significant liquidation yesterday that knocked down premiums. Coins such as the U.S. **American Eagle** (4.0%), Canada **Maple Leaf** (4.0%), and Australia **Kangaroo** (5.3%) have all seen their relative premiums decline by 20% from last month.

This premium drop is one of the reasons why we don't recommend higher premium bullion coins. The 100 Coronas, U.S. Medallions, and Krugerrands have already lost their higher premium, meaning there is less downside risk compared to the Eagles, Maples, and Kangaroos.

The 2001 1 Oz Gold American Eagle has not risen further in premium in the past month. With the lowest mintage of all 1 Oz Eagles thus far, it is probably only a matter of time before their premium goes up a bit more.

Among smaller-size gold coins, the British **Sovereign** (6.0%) is our top recommendation. Other lower premium small gold coins include the French **20**

**Franc Rooster** (7.6%) and Swiss **20 Franc** (7.6%). I have a preference for the Sovereign, though, because they are coins actually struck in the year they are dated, whereas the French and Swiss coins were restruck in later years.

**Common-Date U.S. Gold Coins**, especially \$20.00 Double Eagles, have been largely stagnant over the past month. They are incredibly attractive in terms of absolute prices and in the premium to gold content. I would recommend them more highly but for the even better opportunities with **Better-Date U.S. Gold Coins**.

Better Date U.S. Gold Coins, especially those that sell for close to the price of common issues, continue to be difficult to locate. They sell almost instantly when found. We were fortunate to uncover a small group of **Mint State—61 and -62 1914-D \$10.00 Indians**. These lower mintage coins from the final year of Denver-mint Eagles struck for circulation are more than 35 times rarer than the 1932 date in MS-61 and higher grades, yet they sell for surprising little more. They are a perfect example of the Better Date U.S. Gold Coins that collectors love. See our flyer for details.

It is even possible to find great values in **Modern U.S. Gold Commemoratives**. The Mint deliberately overprices these coins at original issue in order to provide subsidies to the depicted organizations. The **Mint State 1984-W \$10.00 Olympic Commemorative**, for instance, originally sold for more than \$350. Now you can acquire them for nearly half-off.

It is also possible to find bargains in Ancient, Byzantine, and Medieval gold coins. This month we offer a small group of high quality **Constantine IX Gold Nomismas**. Many are in Mint State condition. This is the first time we have ever been able to offer Byzantine Gold coins this nice.

## Silver and Silver Coins

Silver settled today at \$4.66, up 14 cents (3.1%) from last month.

The recent strength in the price of silver has led to somewhat greater levels of liquidation. U.S. **90% Silver Coin** (6.5%) has lost 1/4th of its premium over the last month while U.S. **40% Silver Coin** (4.4%) has lost half of its premium. They sell for a significantly lower price per ounce of silver content than **100, 10, and 1 Ounce Ingots** (10.7-12.9%). Because of the price ad-

vantage, I still recommend 90% Coin over ingots for most purposes. I also prefer 90% Coin to 40% Coin in most situations, despite the eleven cents per ounce price disadvantage, because it requires less storage space and lower transportation costs for the same quantity of silver.

Despite the solid prospects for much higher silver prices, I doubt very much that they will happen very soon. The London silver premium over the New York Comex price is now only two cents, not enough to cover the costs of re-refining New York silver up to London standards and transporting it across the Atlantic. Until this indicator rises above 8-9 cents, silver will more likely enjoy a gradual increase in price over time.

As I have reported over the past few months, many popular silver collector coins are up in price. Many prices are now high enough that they do not represent good value in my judgment. As skilled numismatists, we are constantly looking for the coins that are now the better values. Our offer this month of the **Canada 1973-6 \$5.00 and \$10.00 Olympic Silver Commemoratives** is for coins that have limited downside risk and better appreciation potential than other popular Canadian silver coins. Please refer to our enclosed offering.

## Be Careful With Platinum

Platinum is up 25% since the end of last October, but this trend is shakier than the recent strength in gold and silver.

Most of the platinum price increases have happened during trading in the Far East. A lot of physical platinum has been purchased by worried Japanese investors in addition to their strong gold demand.

However, the price movements are magnified by the thin market. Whereas there is over 100 million ounces of physical gold traded each year, the platinum market only trades 6 million ounces.

Once the Japanese buying binge slows down or reverses, platinum prices can retract quickly. If you wish to invest in platinum, please do your research and be careful.

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## Philadelphia Mint Coin Production Still Shut Down By OSHA

As reported last month, the Philadelphia Mint ceased coin production operations on March 4. Operations will not resume until the Occupation Safety and Health Administration (OSHA) approves the Mint's actions to rectify safety violations.

When production ceased, it was expected that the shut down would end in mid-April. As I write this, the Philadelphia Mint is still not making coins, and I have no new information when they might.

A Mint spokesman stated that an unspecified quantity of Ohio quarters had been struck before the production halt and that, if the Mint resumed production in time, that minting of Ohio quarters would be a major priority. However, if the shut down lasts so long that it ends when it is time to produce Louisiana quarters, no more Ohio quarters will be struck in Philadelphia.

Ohio quarters from the Philadelphia Mint are virtually unobtainable. It appears that those who have some are sitting on their holdings in case the price rises dramatically in a few weeks.

There is a good likelihood that the Philadelphia Mint quarters for Ohio will have the lowest production of any state quarter thus far and for many years to come. However, I do not recommend paying high prices for them in hopes of profiting from even higher prices in the future. If you are fortunate to find some close to face value, then you just might make a profit.

Future developments will be reported next month.

## Michigan Quarter Design Candidates On Way To The Mint

At the March 15 meeting of the Michigan Quarter Commission, of which I am one of 25 members, five potential design concepts for the 2004 Michigan Quarter were selected.

Next, I was one of three people who wrote the text descriptions of the designs. They were forwarded to Michigan Governor John Engler along with

### The Month

Gold Range	\$16.00	5.5%
Net Change	+9.00	
Silver Range	.27	6.0
Net Change	+14	
Gold/Silver Ratio	64.9	
Net change	-0.0	
Platinum Range	27.00	5.3%
Net Change	+17.00	
Platinum/Gold Ratio	1.74	

Date	Gold	Silver	Platinum
Mar 06	293.50	4.52	510.00
Mar 07	290.00	4.47	510.00
Mar 08	290.00	4.50	518.00
Mar 11	291.00	4.47	525.00
Mar 12	293.50	4.50	518.00
Mar 13	293.50	4.52	515.00
Mar 14	291.00	4.49	509.00
Mar 15	290.00	4.48	514.00

Mar 18	292.00	4.49	517.00
Mar 19	293.00	4.51	515.00
Mar 20	292.25	4.52	513.00
Mar 21	292.75	4.50	509.00
Mar 22	297.25	4.53	515.00

Mar 25	297.50	4.57	518.00
Mar 26	296.50	4.58	509.00
Mar 27	302.25	4.67	514.00
Mar 28	302.50	4.64	518.00
Mar 29	closed		

Apr 01	303.00	4.69	522.00
Apr 02	306.00	4.74	536.00
Apr 03	302.50	4.66	527.00

London Silver Market Premium To New York Silver Market = 2¢

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

Michigan), an early Automobile, the Mackinac Bridge, and a Lighthouse (Michigan has 120 lighthouses, more than any other state).

- Michigan State Map and the Five Great Lakes plus the Mackinac Bridge.
- Michigan State Map, the Mackinac Bridge, and an early Automobile.
- Michigan State Map and the Five Great Lakes plus an early Automobile.

When the U.S. Mint receives these design concepts, Mint employees will create their own designs for an evaluation process that will take 6-12 months to complete. Approved designs will returned to Governor Engler or his successor for selection of the final design.

You can view the sample designs as soon as they are posted on the internet at [www.michigan.gov](http://www.michigan.gov) and at the Michigan State Numismatic Society's (MSNS) website [www.michiganstatequarter.com](http://www.michiganstatequarter.com). Descriptions of the significance of each of the design elements to Michigan, of which I was the primary author, will also be posted.

The designs will also be on exhibit at the MSNS Spring Convention May 10-12 at Michigan State University's Kellogg Center in East Lansing. MSNS will be polling visitors on their favorite design concept.

Working on this project has been one of the highlights of my life, a dream of mine ever since the State Quarter program was announced in 1997. It was an honor to work with so many interesting and wonderful people, giving me memories that will last a lifetime, especially when I pull a Michigan quarter out of my pocket.

sample sketches.

Governor Engler publicly unveiled these design concepts at a press conference this afternoon. These are the designs going to the U.S. Mint for evaluation. They are:

- Michigan State Map with the Five Great Lakes.
- Michigan State Map with the Five Great Lakes plus small icons at the left and right edges of a Pine Tree (to represent Michigan's lumber industry in the 1800s), a Great Lakes Canoe (to honor Native American Indians), the North Star (the guiding light for fugitive slaves following the Underground Railroad to Canada through Detroit and Port Huron,