Liberty's Outlook

Volume 11 Issue 4 Liberty Coin Service's Monthly Review of Precious Metals and Numismatics March 30, 2005

Gold And Silver Showing Strength!

P. 2: Top Values In Classic U.S. Silver Commemoratives Today

The first half of March saw the strongest gold prices of 2005, peaking at $446.00 on March 11. This was within 2% of last December's high—which was the highest gold price since 1987!

Normally, when gold or silver reach new higher levels, the higher price triggers computer-automated sell signals in the paper contract markets. As some major brokerage firms had issued projections earlier this year that gold would not reach $440 this year, the prices above that level certainly should have triggered some selling.

Here at LCS we did see some increase in physical liquidation. But—we also saw an increase in physical demand!

In similar fashion, silver rose to its 2005 high of $7.60 on March 9. Our customers' physical demand for silver soared all month long, far ahead of the slight increase in liquidation.

After closing above $440 for seven consecutive trading days, gold finally retreated on March 17. Some of the drop was no doubt attributable to short-term profit-taking. There was no significant new news that would affect gold either way, other than the Fed's hiking of interest rates which led to a 1/4% increase in the prime rate on March 22..

However, it seems curious to me that last October's proposal by Gordon Brown (the British Chancellor of the Exchequer and also Chairman of the International Monetary Fund's [IMF] International Monetary and Financial Committee) to have the IMF revalue its gold holdings in order to aid heavily indebted nations was suddenly was being covered as fresh news by several media sources in the past two weeks.

As I discussed more fully in the November 3, 2004 issue of *Liberty's Outlook*, the specter of IMF gold market activity is a political ploy that has almost no chance of ever happening.

The first clue that there is something wrong with this proposal is that 36 of the 41 nations supposedly being helped by such a move depend on gold exports for part of their economic sustenance. In some nations, gold exports are the largest source of foreign exchange. Knocking down the gold price will simply hurt the economies of these nations rather than helping them.

I don't mean to flat out claim a conspiracy to hold down gold prices, but there are curious events that fit together too conveniently. Let's look at some of them.

For several years, a number of major banks have financed gold hedging operations. Some claim that they have covered their risk of rising gold prices with derivatives, but there have been occasional revelations that such claims are partly or completely untrue.

When banks could borrow physical gold from a central bank at 1% interest (in ounces of gold that is—the borrower of a 400-ounce gold bar would repay 404 ounces of gold a year later) then loan out the proceeds of the gold sale at say 5% interest in U.S. dollars, the bank can make a higher profit that it would make if it borrowed the dollars to re-loan them.

However, this strategy to make extra profits only works so long as the price of gold stays steady or declines, where a decline would actually increase profits. If the price of gold were to increase, the bank could actually sustain large losses. If the bank borrowed a 400-ounce bar when spot was $260, then have to repay 404 ounces of gold when the spot price is $350, that would effectively cost the bank about 36% in order to loan out the money to make only 5%! This is a simple example and ignores the effect of fractional banking, but you can understand how a bank that did not properly hedge its gold loans could incur huge losses.

While it is no secret that some of these banks have engaged in various gold trading and hedging operations, the information is sketchy on how well these same banks have offset their risk. Some analysts have publicly stated that unrecognized losses caused by the gold price rises in the past few years could total hundreds of millions of dollars. Rather than revealing information that would refute such statements, these banks are mostly saying nothing.

The world's largest gold trading market is in London, so all of these banks have operations in Britain. To the extent that higher gold prices have imposed substantial losses in their gold operations, these banks have an incentive to knock down the gold price. The central banks and mining companies are reducing their supplies coming onto the market, so they aren't any help to the bullion banks.

That leaves banks looking for other ways to try to knock down gold prices. Gordon Brown would like to become Britain's next prime minister. To do so, he will need lots of campaign contributions. With his IMF position, he could try to do some of the dirty work knocking

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down the price of gold by talking about IMF gold shuffling.

As I said, I am not flatly stating that any specific bank is suffering a huge amount of losses from inadequately hedged gold trading losses. I am also not necessarily saying that Gordon Brown has earned major backing for his plan to become prime minister as a reward for taking actions contrary to the welfare of British citizens or to the welfare of heavily indebted nations. But is sure is coincidental that it occurred right at the time that the price of gold was poised to make a major move upward—such as two weeks ago.

To the extent that there is any such attempt at gold price manipulation as described here, that makes me all the more enthusiastic for higher gold prices in the long term.

The Short-term Impact Of A Rising Prime Rate

One significant news event that affected the gold and silver markets temporarily was the Federal Reserve Open Market Committee's increase of their benchmark interest rate which led to a hike in the U.S. prime rate to 5.75% on March 22.

A higher prime rate makes the U.S. dollar temporarily more attractive than many other currencies because many forms of dollar-denominated debt will earn more income from then on. Therefore, the value of the dollar tends to rise against other currencies—and against gold.

The Federal Reserve Open Market Committee has now hiked their interest rate seven times in the past nine months. There is a surprisingly consistent pattern how this has affected the prices of gold and silver in the very short term.

The prices of gold and silver almost always fell on the day that the prime rate rose. Gold dropped five of the seven times from its levels six days prior to the prime rate increase, averaging down 0.7% including the two times that prices were up.

The Top Values In Classic U.S. Silver Commemoratives Today

From 1892 to 1954, the U.S. Mint issued 144 different dates and mintmarks of 50 different types of Silver Commemoratives, all but two of which were half dollars. The series is filled with low mintage coins—70 have mintages of less than 10,000 and another 22 have mintages below 20,000! Some of the commemoratives honor national themes such as those for the Civil War, the U.S. Sesquicentennial, the Landing of the Pilgrims, and the discovery of the Western Hemisphere by Columbus. Several honor statehood centennials. Still others commemorate obscure events such as the 300th Anniversary of the settlement of York County, Maine.

Coins with low mintages mostly survived in nice condition, so they are not so rare as circulation coinage with comparably low production. As a result, it is possible to own some high-grade rarities at reasonable prices. That has made the collection of the 50-coin type set or of the whole series a favorite with many collectors. Because of their relative rarity, supply shortages can lead to quick price increases in rising rare coin markets. Today, virtually all issues are selling for prices well below their levels at the last major market peak in June, 1989.

Many of these coins are currently selling for 60-80% below their prices at the peak. None of the Classic U.S. Silver Commemoratives are priced high enough today that we consider them overvalued. Virtually all are likely to rise with the growing boom in rare coin collecting. Below, we list the coins that we consider to be the best values today, along with current *Coin Values* catalog values. A number of issues can be obtained at discounts to catalog value—if you can find them. Although some coins were saved in hoard quantities, most of these coins can only be found one at a time. Coins with the catalog value in **bold** are those that we give our highest recommendation and those that are underlined earn our high recommendation. Year sets of three coins are denoted "PDS."

Issue	MS-64	MS-65	MS-66
1893 Isabella Quarter			$4,500
1921 Alabama 2x2	**$1,200**	**$2,800**	**$6,000**
1921 Alabama	**$ 900**	**$2,500**	**$7,500**
1936 Albany		**$ 400**	**$ 800**
1937 Antietam			**$1,100**
Arkansas Type	**$ 117**	**$ 283**	**$1,000**
1935 Arkansas PDS	**$ 350**	**$ 850**	**$4,000**
1936 Arkansas PDS	**$ 350**	**$1,000**	**$4,000**
1937 Arkansas PDS	**$ 375**	**$1,100**	
1938 Arkansas PDS		$2,000	
1939 Arkansas PDS		$3,500	
1936-S Bay Bridge		**$ 350**	**$ 750**
Daniel Boone Type		**$ 217**	**$ 450**
1934 Boone		**$ 250**	**$ 450**
1935 Boone PDS		**$ 650**	**$1,500**
1936 Boone PDS		**$ 650**	**$1,400**
1937 Boone PDS			$2,200
1936 Bridgeport		**$ 300**	**$ 700**
1925-S California			$2,000
1936 Cincinnati Type		**$ 750**	**$2,000**
1936 Cincinnati PDS		**$3,000**	**$7,500**
1936 Cleveland		**$ 250**	**$ 750**
1936 Columbia Type		$ 350	**$ 400**
1936 Columbia PDS		$ 900	**$1,400**
1892 Columbian	**$ 225**	**$ 900**	**$2,100**
1893 Columbian	**$ 225**	**$ 900**	**$2,300**
1935 Connecticut		**$ 650**	**$1,400**
1936 Delaware		**$ 450**	**$ 800**
1936 Elgin		**$ 325**	**$ 600**
1936 Gettysburg		**$ 700**	**$1,100**
1922 Grant		**$1,000**	**$2,000**
1928 Hawaiian		$5,500	$10,000
1935 Hudson		$1,700	**$3,500**
1924 Huguenot	**$ 250**	**$ 550**	**$1,500**
1946 Iowa		**$ 175**	**$ 200**
1925 Lexington	**$ 200**	**$ 700**	**$2,000**
1918 Lincoln-Illinois		**$ 500**	**$1,000**
1936 Long Island	**$ 150**	**$ 450**	**$1,300**
1936 Lynchburg		**$ 350**	**$ 900**
1920 Maine		**$ 650**	**$1,200**
1934 Maryland	**$ 225**	**$ 375**	**$1,000**
1923-S Monroe		$3,500	
1938 New Rochelle		**$ 500**	**$ 800**
1936 Norfolk			**$ 650**
Oregon Trail Type		$ 325	**$ 375**
1926 Oregon		$ 350	**$ 600**
1926-S Oregon		$ 350	**$ 600**
1928 Oregon		**$ 375**	**$ 600**
1933-D Oregon		$ 600	**$1,000**
1934-D Oregon		**$ 350**	**$ 900**
1936 Oregon		$ 325	**$ 375**
1936-S Oregon		$ 350	$ 500
1937-D Oregon		$ 325	$ 400
1938 Oregon PDS		$ 900	**$1,200**
1939 Oregon PDS			$3,000
1915-S Panama-Pacific			$4,500
1920 Pilgrim	**$ 175**	**$ 600**	**$1,600**
1921 Pilgrim		**$ 700**	**$2,000**
Rhode Island Type	**$ 125**	**$ 275**	**$ 700**
1936 Rhode Is PDS	**$ 400**	**$ 850**	**$3,500**
1937 Roanoke		$ 350	**$ 450**
1936 Robinson-Arkansas		**$ 400**	**$1,200**
1935-S San Diego		$ 150	**$ 300**
1936-D San Diego		$ 175	**$ 275**
1925 Stone Mountain		**$ 250**	**$ 700**
Texas Type		$ 217	**$ 325**
1934 Texas		$ 225	**$ 325**
1935 Texas PDS		$ 650	**$1,000**
1936 Texas PDS		$ 650	**$1,000**
1937 Texas PDS		$ 650	**$1,000**
1938 Texas PDS			$1,550
1925-(S) Vancouver		$1,700	$2,500
1927 Vermont		$1,100	**$2,300**
1946 BT Washington PDS		$ 175	
1947 BT Washington PDS		$ 300	
1948 BT Washington PDS		**$ 225**	
1950 BT Washington PDS		$ 225	
1951 BT Washington PDS		$ 225	
Washington-Carver Type		**$ 70**	
1951 Wash-Carver PDS		$ 425	
1952 Wash-Carver PDS		**$ 425**	
1953 Wash-Carver PDS		**$ 600**	$2,400
1954 Wash-Carver PDS		**$ 500**	$2,400
1936 Wisconsin		**$ 325**	**$ 450**
1936 York County		**$ 300**	**$ 350**

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Silver was also down on the date of the prime rate increase five of the seven times compared to prices six days earlier. Being a more volatile metal, silver was down an average of 2.8%.

The time right after an increase in the prime rate has proven to be a bargain buying opportunity for gold and silver. But is also didn't take long for the prices of gold and silver to rebound.

For five of the seven occasions, the price of gold was higher eight days after the date of the prime rate increase, averaging 1.5% higher. All seven times, the price of silver was higher eight days after the hike in the prime rate, by an average of 4.5%!

For the two week period starting six days before the interest rate jump and ending eight days after, the prices of gold and silver were each higher five of seven times. Gold was up an average of 0.9% and silver up 1.6%.

I do not recommend trying to time the gold and silver market in the very short term. But, if you happen to have some extra money to spend on precious metals after the Fed raises interest rates again, you might want act immediately.

(This time around, at LCS we increased our gold and silver position last week, already benefiting from the 3% rise in silver prices since then.)

The quick recovery in precious metals prices after the Fed raises interest rates—especially since gold and silver prices often climb even higher than before the Fed took action—tells me that the effort by the Fed to support the long-term value of the dollar is failing.

As I have recommended all along, keep a certain percentage of your net worth (5-20%) in precious metals and tangible assets as a protection against the possible decline in the value of the U.S. dollar and dollar-denominated stocks and bonds. Don't wait until another possible Fed rate hike—unless it might hit in the next couple of days. But the Federal Open Market Committee won't meet again until at least May.

2005 American Bison Nickels Are Hot!

The first of the two different 2005 Nickel honoring the Lewis & Clark Expedition debuted four weeks ago. The coin, which features a dramatically different obverse portrait of President Jefferson, has an American Bison on the reverse, somewhat similar to the reverse of the nickels minted from 1913-1938.

Public interest in these coins has been tremendous. It seems like everyone wants one—and they want them now! The U.S. Mint simply cannot ship them out fast enough to satisfy demand. A dealer in Montana last week offered to sell his supply of Denver-Mint coins to other dealers at 20 cents per coin!

This coin will be in production for six months. I estimate that at least 500 million and perhaps a billion of them will be struck.

I think that the striking designs on the coins will lead the public to pull them out of circulation almost immediately, just like what happened with the Bicentennial Quarters, Half Dollars, and Dollars in 1976. The Bicentennial coins have not appreciated in the past 29 years. Similarly, I don't expect these American Bison nickels to be a good investment.

So, even though I don't expect these Nickels to appreciate, I do think that all the excitement will attract new coin collectors, just as the introduction of Statehood Quarters and the Sacagawea Dollars did, helping drive up prices of other collector coins.

U.S. Mint Trying To Clamp Down On Deceptive Ads

On January 12, the U.S. Mint issued a notice of proposed rulemaking on the assessment of civil penalties for misuse of words letters, symbols, and emblems of the U.S. Mint.

This step is proposed to try to reduce the number of deceptive ads for commemorative coins and medals that are marketed in such a way so as to confuse the public into thinking that either the U.S. Mint is the manufacturer or seller of the products, that the seller is somehow affiliated with the U.S. Mint, or that non-U.S. Mint products are legal tender in the U.S.

However, there are significant problems with the proposed rules. Coin dealers (including LCS) may be prohibited from using descriptions, logos, or photographs of <u>any</u> U.S. Mint coins or sets because doing so could be construed as confusing the public as to whether the dealer is affiliated with the U.S. Mint.

The Federal Trade Commission endorsed the proposed regulation, noting that the Mint should consider the "net impression" created by any ad. The use of disclaimers (such as stating that the dealer is not the U.S. Mint and not affiliated with any government agency) could help protect dealers from prosecution.

The Industry Council for Tangible Assets (ICTA), is the national coin dealer trade association, for which I currently serve on the Board of Directors and as Treasurer). It submitted lengthy comments dissecting problems with the proposed regulations.

When the final regulations are released, we will hopefully see sensible rules.

In the meantime, we want to remind the customers and prospective customers of Liberty Coin Service that Liberty Coin Service is not part of the United States Mint, is not a agency for the United States Mint, and is not affiliated with the United States Mint. Liberty Coin Service is an independent, privately-owned company which buys and sells products some of which are manufactured by the United States Mint, other Mints, and other manufacturers. If you have any confusion over this information, please let us know.

New Designs Coming For U.S. Cents, Dollars, And Platinum Eagles?

Previous legislation in Congress for new cent and dollar coin designs died without passage. This year, proponents are pursuing a new strategy to overcome some of the objections to prior bills.

A combined bill, H.R. 902, was approved by the House Financial Services Committee on March 16 and sent to the full House for action.

If passed, the Bill would call for four commemorative reverse designs on the Lincoln Cent in the year 2009, the Bicentennial of Lincoln's birth and the 100th anniversary of the start of the Lincoln cent. The reverse designs would each be issued for three months, each reflecting a stage of Lincoln's life. Additional provisions call for the cent to be struck in 2009 of the same metallic content as the 1909 cents (95% copper and 5% zinc rather than the current 2.5% copper and 97.5% zinc) and for the designs on the dies to be restored to their higher relief as used in 1909. There is no requirement for changes to cents before or after 2009.

In addition to continued production of the Sacagawea dollar, the Bill calls for a series of U.S. Presidential commemorative dollars, issued in chronological or-

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der at the rate of four coins per year starting in 2007. The series would end when all presidents (including living ex-presidents) other than the current office-holder had been honored on a coin. These dollars would be made of the same metal composition as Sacagawea dollars. The reverse design would show the Statue of Liberty.

The Bill also calls for the issuing of a new $10.00 half-ounce .9999 pure gold bullion coin (along with a bronze medal of the same design) honoring the series of First Ladies, in a sequence corresponding to the release of the Presidential dollars. This coin would be issued in addition to the existing $25.00 one-half ounce .9167 American Eagle gold bullion coin. Where a president was not married during his presidency, the Bill calls for "an image emblematic of the concept of 'Liberty.'" However, there is an exception to that rule for President Chester Alan Arthur, a widower during his presidency. The Bill calls for the gold coin to honor Alice Paul, a suffragist who was born during Arthur's term.

One last provision of the Bill addresses the public's lack of acceptance of the Susan Anthony dollar. The Secretary of the Treasury would be authorized to declare Anthony dollars to be "obsolete" whenever he deems it necessary and beneficial to do so. The language of this provision is not clear whether Anthony dollars would become totally unredeemable or whether they would lose legal tender status but could still be redeemed by the Federal government for full face value.

The U.S. Mint is pursuing a marketing campaign to push for new designs for the Platinum Eagle series of coins. Since the series debuted in 1997, the price of platinum has roughly doubled, with sales dropping sharply.

Mint officials think that turning the Platinum Eagles into commemorative designs that change annually will spark demand. They currently are pushing for a three years series of "the foundations of democracy" which means that each year's issue would honor a different branch of the Federal government—legislative, executive, and judicial.

If any of these changes are put into effect, they will only spark additional interest in coin collecting. One of the effects in the growth of the number of coin collectors is that existing coins tend to become more valuable. The current developing bull market in rare coins could still have several years to run.

The Month

Gold Range	$18.75	4.3%
Net Change	-6.75	
Silver Range	.70	9.6%
Net Change	-.17	
Gold/Silver Ratio		59.9
Net change		+0.6
Platinum Range	30.00	3.5%
Net Change	-0.00	
Platinum/Gold Ratio		2.02

Date	Gold	Silver	Platinum
Mar 02	432.75	7.30	863.00
Mar 03	429.75	7.23	865.00
Mar 04	434.00	7.34	867.00
Mar 07	434.75	7.35	865.00
Mar 08	440.25	7.50	872.00
Mar 09	441.75	7.60	873.00
Mar 10	442.25	7.50	870.00
Mar 11	446.00	7.53	864.00
Mar 14	441.00	7.38	865.00
Mar 15	441.00	7.38	872.00
Mar 16	443.50	7.42	883.00
Mar 17	438.50	7.38	876.00
Mar 18	439.50	7.37	876.00
Mar 21	431.00	7.09	867.00
Mar 22	431.25	7.07	863.00
Mar 23	425.25	6.97	853.00
Mar 24	424.75	6.93	858.00
Mar 25	closed		
Mar 28	426.00	6.90	858.00
Mar 29	426.00	6.98	857.00
Mar 30	427.00	7.13	863.00

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.

Gold and Gold Coins

Gold finished today at 427.00, a decline a $5.75 (1.3%) from a month ago.

After hitting a peak on March 11, gold prices fell 4.3% over the next 13 days. It has since started to recover, a recovery that will continue if the past is any guide.

Demand for physical gold has been strong in the past two weeks, especially for the low premium issues such as the Austria **100 Corona** (3.5%), South Africa **Krugerrand** (3.7%), and U.S. **American Arts Medallions** (3.7%). Sales of the U.S. **American Eagle** (5.9%) have dropped sharply, perhaps in reaction to its continuing extra high premium.

Common-Date U.S. Gold Double Eagles are down somewhat in sympathy with the lower spot prices but high grade specimens of the $1.00 through $10.00 denominations are still creeping upward. Because of more limited supply of the smaller coins, I expect prices to trend upwards over the course of the year and to outperform the Double Eagles.

Interest in **Better-Date U.S. Gold Coins** is still super hot. We have done our best to come up with enough **Better-Date Choice Mint State-63 $10.00 Liberties**, but there are too many other dealers chasing them right now. See our offer for details.

Lower-priced **World Gold Coins,** such as we offered last month, are easy to sell and hard to buy. We had little luck finding more specimens of those that sold out.

Silver and Silver Coins

Silver closed today at 7.13, down 17 cents (2.3%) from four weeks ago.

Demand for physical silver was strong all month long, resulting in one our highest sales months in a long time. Some were buying as prices rose, while others jumped in last week to take advantage of lower prices.

The best buy is still U.S. **90% Silver Coin** (3.1%). It has the best liquidity, great divisibility, and the lowest premium.

We snapped up a bargain lots of **U.S. Commemorative Silver Dollars** that we can sell for less than $11 apiece. This is our largest group in almost a decade, but we have had great difficulty finding any more supplies. You can own these for practically the same price as common circulated Morgan and Peace Dollars. But they won't last long. Check our flyer and call in your order today.

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