Liberty's Outlook

Volume 12 Issue 4 Liberty Coin Service's Monthly Review of Precious Metals and Numismatics April 5, 2006

As The U.S. Dollar Sort Of Holds Up—

Gold Reaches 25-Year High, Silver Hits 23-Year High, Platinum Touches All-Time High!

Lets see. In the past five weeks, several events occurred (or did not occur) that should shore up the value of the U.S. dollar.

Perhaps the most significant is what did not happen. the Iranian government did not open its petroleum commodity exchange in late March, instead announcing that it would become operational in stages over the next three to twelve months. This planned exchange would require all contracts to be paid in Euros and not in U.S. dollars, as is the standard for the world's two major oil exchanges in New York or London.

The opening of the Iranian oil exchange was expected to increase demand for Euros and reduce demand for dollars, with the expectation that the value of the dollar would drop noticeably as a result.

I would love to know all the background political maneuvering that took place to get the Iranians to "postpone" (and there is a good chance that the delay will turn into outright cancellation) their intended assault on the U.S. dollar, but the public will probably never know.

Last week the Federal Reserve raised short-term interest rates another 1/4%, despite the message accompanying the February rate hike that that there would be no or almost no future increases in the interest rate. Higher interest rates make the U.S. dollar more attractive than other currencies for foreign investors.

Higher interest rates also make it more expensive to own precious metals because the opportunity cost (i.e. the income you could have made lending the money to the U.S. government) is higher.

With all this positive news for the U.S. dollar, you would normally expect it to rise in value against other currencies and precious metals.

So what did happen in the past five weeks?

The U.S. dollar did climb against some currencies—8.3% against the New Zealand dollar, 2.0% against the Canadian dollar, over 4% against the Mexico peso, over 3% to the Australia dollar, 0.7% to the India rupee, and even 0.2% against the Japanese Yen.

However, the dollar continued to decline against other currencies—more than 2.5% to the Euro, 1.7% to the Swiss franc, 0.2% to the Chinese yuan, a little bit versus the British pound, and by significant amounts against many of the currencies of the Far East Asian "Tigers" like Indonesia, Thailand, South Korea, the Philippines, Singapore, Malaysia, and Taiwan.

As for precious metals—

- **Gold hit a 25-year high!** It is up 4.3% in the last five weeks.
- **Silver reached a 23-year high!** Up 20.0% in five weeks!
- **Platinum climbed to an all-time high**, yesterday topping the February 28, 2006 near all-time high by 0.4%.
- **Palladium shot up more than 15%!**

2006 Year To Date Results

US Dollar vs Foreign Currencies

Indonesia Rupiah	-8.5%
Brazil Real	-8.4%
Thailand Baht	-6.1%
South Korea Won	-4.6%
South Africa Rand	-4.6%
Philippines Peso	-3.5%
Euro	-3.4%
Singapore Dollar	-3.2%
Malaysia Ringitt	-2.6%
Great Britain Pound	-2.0%
Switzerland Franc	-1.8%
Peru New Soles	-1.7%
India Rupee	-1.0%
Taiwan Dollar	-1.0%
China Yuan	-0.6%
Japan Yen	-0.4%
Canada Dollar	-0.05%
Hong Kong Dollar	+0.05%
Chile Peso	+1.7%
Australia Dollar	+1.8%
Mexico Peso	+2.8%
New Zealand Dollar	+12.6%

For the U.S. dollar to be supported by such positive news over the past few weeks, yet perform so miserably against many other currencies and precious metals is a major warning sign of what we can expect in the future:

1. Even if the Iranian petroleum bourse never starts trading, the huge U.S. government budget deficits and America's still-growing enormous

Inside this issue:

(Continued from page 1)
trade deficit will ensure that the value of the U.S. dollar declines further against most currencies and against precious metals.

2. If the U.S. economy and federal government don't do enough damage to the future value of the U.S. dollar, then continuing strong pressure from various elements of the U.S. government to persuade China to let the dollar decline against the yuan will almost certainly be successful.

3. The current growing backlog of unsold homes in the U.S. along with falling prices of homes that do sell portend a slow down in the U.S. economy. Jobs are already disappearing in the construction, real estate, and financial sectors.

4. Inflation will continue to rise. It has not reached levels as high as we saw in the late 1970s—yet, but the direction is worrisome.

In sum, the future value of the U.S. dollar looks dark. If the news for the dollar in the coming months isn't so positive, the dollar could easily fall 5%, 10%, maybe even more.

Silver Rockets Upward

Since Barclays Bank filed an application with the Securities and Exchange Commission (SEC) to begin a silver Exchange Traded Fund (ETF) last June, the spot price of silver has soared 60%! The fund will be called iShares Silver Trust with the market symbol SLV.

There is no schedule as to when the SEC will approve or deny the application for this fund to trade on the American Stock Exchange. It could come any day, or maybe not for a few months.

Earlier this year, the SEC asked for public comments on the application, a step normally not taken for applications that will be denied. Two weeks ago, the SEC made a rule change that would be necessary if it were to allow the fund to be listed on the Amex. At least one SEC official has apparently said (unofficially?) that the EFT has been approved but it has not yet been given an effective date to commence operations.

Much of the rise in the silver price can be attributed to the anticipated approval of the ETF.

The reason for that is that each share of the ETF would represent 10 ounces of physical silver that the fund would have stored in vaults. To begin operations, Barclays Bank said it would purchase 130 million ounces, an amount greater than all of the silver stored on the COMEX and equal to about 15% of annual worldwide demand for physical silver.

Such a huge purchase would instantly magnify the existing huge shortages of silver supply, leading to far higher prices, or so the theory goes.

However, there is a chance the transition may be more orderly than a sudden jolt. One plausible scenario has Warren Buffett's Berkshire Hathaway leasing some of its silver to the ETF to smooth out the transition. By doing this, Buffett could profit in two ways. First, he would earn the lease income. Second, by creating a convenient way for investors, especially retirement funds and other investment funds, to own silver, the total investment demand for silver is almost certain to grow. With higher demand in conjunction with limited supplies, prices would rise, increasing the value of Buffett's holdings.

The California Public Employees Retirement System (CALPERS), to throw out one hypothetical example, could easily purchase a million shares (represent-ing 10 million ounces of silver) almost out of petty cash. Yet such a purchase would have a noticeable impact on the relatively small silver market.

Although the shares of the ETF represent ownership of 10 ounces of physical silver, shareholders cannot simply redeem their shares for the actual silver. The fund will redeem shares for silver, but only in lots of 50,000 shares (500,000 ounces) and pretty much only from brokerage houses.

In the application, Barclays Bank admits that there will likely be a flurry of buying at the start of operations that will push up the price of silver higher than it will eventually settle at. This happened when a gold ETF started trading a couple years ago.

At the beginning of this year, I predicted that if the price of silver reached $10.00 by the end of February, there was a good prospect that it could reach $15.00 or even $20.00 by the end of 2006. Silver did top $10.00 on March 2, two days after my prediction expired, ending the month at $11.48. My call for $15.00 to $20.00 silver still looks good, even though Barclays Bank's experts project that silver will settle down to around $8.60 by the end of 2006.

One reason I am so optimistic about the silver market for the balance of 2006 is that there is so much negative sentiment toward the metal.

The Wall Street Journal, for example, consistently ignores or downplays precious metals. As silver soared during March, you would barely be aware of that from the absence of discussion in the newspaper's "Commodities Report" section. It wasn't until March 31 that a feature article discussed silver under the headline, "Silver May Be A Little Too Precious."

Another example was a news headline late last week that said, "European Central Bank Sells 57 Tons of Gold." From the headline, you might get the impression that the market has suddenly been flooded with more than 1.8 million ounces of gold. However, if you read the article, you learn that the 57 tons were sold over the course of 2005, and were below the allotment authorized by the current central bank gold sale agreement. The article went on to further reveal that the European central bank was going to sell much less gold in 2006, falling far below its allotment. The impression left by the headline was probably deliberate, though inaccurate.

Several investment analysts, including some for whom I have a lot of respect and some who are customers of LCS, are projecting poor results for precious metals this year. Some brokerage houses have also issued sell recommendations for gold and possibly silver.

With so much negative sentiment

(Continued from page 2)
about silver within the investment industry, it seems obvious to me that silver still has lots of room to appreciate. The fundamental long term supply shortages are now in their 16th year, and have consumed most of the available silver inventories in that time. The remaining inventories aren't enough to meet industrial demand for many years, even if investment demand were to return to the lower levels of a few years ago. Even ignoring the almost certain rise in investment demand for silver if the silver ETF is approved, the price of silver is virtually certain to rise significantly.

When I did my last annual analysis of the silver market fundamentals last fall, I concluded that the long term equilibrium price for silver should be at least $17.00 per ounce. That analysis ignored the impact of the existence of the ETF.

How much impact would a silver ETF have on the silver market? I don't know. There are currently two gold ETFs, one of which has $6 billion in assets. Current annual worldwide industrial demand for silver is still less than $10 billion per year, even at today's new higher levels.

Barclays Bank expects to sell out at least 130 million ounces of silver with this ETF, which indicates at least a market for $1.5 billion in investment demand, only part of which would supplant existing investment demand for physical silver. The marginal effect of this increase in demand would, I think, raise the long term equilibrium price for silver to at least $20.00.

I don't know the price at which silver will peak. However, I can give a clue to help identify when it will be near a top. When you get tips on buying silver from taxi drivers, restaurant servers, strangers waiting in lines with you, co-workers, relatives, with no one saying it's time to sell, that will almost certainly turn out to be the best time to sell.

The silver market today, even though it is up 60% in the past 10 months, seems to still be in the early stages of a major boom. If you already have your position, pat yourself on the back. If not, start now—prices today are likely to be lower than they are in the coming months.

Incidentally, I formally recommended that silver make up 50-55% of the total assets you hold in physical gold or silver, versus 45-50% in gold. I now like the future prospects of silver even more, so I change my recommended allocation between the two to 60% silver and 40% gold.

The Fed Raises Interest Rates—And Gold And Silver Rise!

From July 2004 to January 2006, the Federal Open Market Committee of the Federal Reserve had increased a key short-term interest rate 0.25% for 14 consecutive times.

For the first 13 rate hikes, the gold and silver market reacted with surprising consistency. Prices declined either one or two days before the announcement or right afterwards, then stayed down for a few days to two weeks. Then gold and silver prices would rise even higher than they were before the interest rate hike.

When the interest rate was hiked for the 14th time at the end of January, gold, silver, and platinum all closed that day at multi-decade highs (platinum at an all-time high!) Prices dipped slightly the next day, then gold and platinum reached new highs the day after. It was a week before the precious metals markets were hit with temporary declines.

When the Fed again raised interest rates early last week, the precious metals markets seemed to take no notice. Gold is currently almost 4% higher than it was the day before the rate hike. Silver is up 7.5%. Platinum is also up 0.5%.

Our former advice to look to buy gold and silver when they dip after the Fed raises interest rates is no longer applicable.

It is also obvious that if one of the reasons behind interest rate hikes was to help hold down gold prices (a practice that the Bank for International Settlements acknowledges in its just released report of one of their conferences last summer), that strategy no longer works, even a little bit.

By the way, the gold and silver market are now showing even stronger signs that any government price manipulations to hold down prices are almost completely ineffective now. That is just one more reason to make sure you hold an insurance position of precious metals.

Gold and Gold Coins

Gold closed today at $587.75, up a huge $24.25 (4.3%) in the last month. Gold hit a 25-year high close at $589.50 two days ago after trading above $590 during part of the day.

A report issued by the Gulf Research Center last weekend revealed that the governments of United Arab Emirates, Oman, Qatar, and Bahrain have sold out nearly their entire gold reserves while Kuwait's central bank has leased out 100% of its gold reserves. At the end of 2005, the members of the Organization of Petroleum Exporting Countries (OPEC) held 69% of their combined reserves in U.S. dollars. If the oil-producing nations were to increase their gold holdings to even 5% of their total reserves, the level held currently by the Russian central bank, that would cause a noticeable increase total worldwide gold demand. If the OPEC nations' central banks were to increase their gold holdings to 10% of total reserves, the announced target of the Russian central bank, or 15% of reserves, the level held by the European central bank as backing for the Euro, the price of gold would soar.

At the beginning of this year, I forecasted that gold would reach $600 by the end of March. It only made it to $581.75, up $64.25 (13.0%) from the end of 2005. I still think gold will reach $600 in the near future and that $700 is within reach this year. Maybe even $1,000 is possible.

Higher prices prompted increased levels of investor buying and selling of gold and silver. This company is continuing to enjoy its highest volumes since the 1979-80 bullion boom.

The best low-premium buys con-

(Continued on page 4)

(Continued from page 3)
tinue to be the Austria **100 Corona** (2.6%), U.S. **American Arts Medallion** (2.7%), South Africa **Krugerrand** (3.0%), and Mexico **50 Peso** (3.5%).

When the U.S. Mint starts issuing the new 1 Oz Gold **Buffalo** in two months, I would not be surprised to see interest in the U.S. **American Eagles** (5.0%) decline dramatically. The Mint recently announced that it will begin issuing fractional Buffalo gold bullion coins in 2007.

Premiums on smaller gold coins like the British **Sovereign** (7.3%), French **20 Francs Rooster** (8.7%), and Swiss **20 Francs** (8.7%) are also attractive.

Prices for **High Grade Common-Date U.S. Gold Coins** are up almost across the board for denominations less than $20.00. The Double Eagles, on the other hand, are mostly down slightly in price, despite the significant increase in gold spot.

There is a temporary opportunity to purchase **Extremely Fine $10.00 Liberties and $20.00 Liberties** at bullion prices. When the U.S. dollar was strong against the Euro late last year, many European banks disgorged large quantities of these coins. Now that the Euro is rising against the dollar, this opportunity to buy classic U.S. Gold Coins at bullion prices may not last long. I especially like the $10.00 Liberties, which we offer at just 10% above gold value in the enclosed offering. We also have a handful of $20.00 Liberties at only a 13% premium, which is a great buy. Still, in normal markets the $10.00 Liberties sell at a higher premium then the larger coin. It would be hard to go wrong with either coin. Here you have an opportunity to make a profit either from rising gold prices or from rising premiums, or both. See our offer for details.

Better-Date U.S. Gold Coins are still very popular, and great values too—if you can find them! These coins sell so fast that our current inventory is its lowest since the 1980s!

The Month

Gold Range	$50.00	8.9%
Net Change	+24.25	
Silver Range	2.01	20.7%
Net Change	+1.95	
Gold/Silver Ratio	50.4	
Net change	-7.6	
Platinum Range	80.00	7.7%
Net Change	+22.00	
Platinum/Gold Ratio	1.81	

Date	Gold	Silver	Platinum
Mar 01	563.50	9.71	1,043.00
Mar 02	567.50	10.11	1,049.00
Mar 03	565.50	10.14	1,054.00
Mar 06	554.50	9.96	1,036.00
Mar 07	552.50	10.04	1,033.00
Mar 08	542.50	9.78	1,003.00
Mar 09	545.00	9.92	1,014.00
Mar 10	539.50	9.90	1,003.00
Mar 13	546.00	10.09	1,013.00
Mar 14	551.50	10.18	1,014.00
Mar 15	553.00	10.29	1,020.00
Mar 16	554.25	10.28	1,021.00
Mar 17	554.00	10.30	1,025.00
Mar 20	555.00	10.31	1,036.00
Mar 21	552.00	10.50	1,026.00
Mar 22	550.75	10.45	1,038.00
Mar 23	550.00	10.64	1,038.00
Mar 24	560.00	10.68	1,042.00
Mar 27	567.00	10.84	1,060.00
Mar 28	566.00	10.81	1,066.00
Mar 29	573.00	11.06	1,068.00
Mar 30	586.50	11.62	1,083.00
Mar 31	581.75	11.48	1,052.00
Apr 03	589.50	11.72	1,070.00
Apr 04	586.00	11.68	1,076.00
Apr 05	587.75	11.66	1,065.00

London Silver Market Premium To New York Silver Market = 7¢

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

Silver and Silver Coins

Silver closed today at 11.66, an enormous increase of $1.95 (20.0%) from a five weeks ago. Two days ago, silver closed at $11.72, its highest level since September 2003.

As with gold, investors have stepped up their purchases and liquidation of physical silver.

The higher prices and increased liquidation nave knocked down the premium on U.S. **90% Silver Coin** (0.9%). It is still recommended as the best value in physical silver. 90% Coin has the lowest premium, is also the most widely traded form, the most divisible, and has the best liquidity.

The low premium on 90% Coin means that it trades wholesale enough below melt value that refiners can profitably recycle it. That does not mean that there will be a sudden glut of silver supplies All along, analysts have counted these coins in available silver inventories. It certainly has not brought down the premium of the London silver market price over the New York Comex. To be deliverable in London, Comex silver would have to be re-refined from .999 to .9999 purity, then be transported across the Atlantic. The 7 cents price difference is close to what the refining and transportation costs would be, meaning that there is some pressure for higher silver prices in the future.

Premiums on **100, 10, and 1 Oz Silver Ingots** (3.0-3.9%) are also attractive. With a price advantage of 24-34 cents per ounce, however, I prefer 90% Coin.

Telemarketers, collectors, and investors are getting more aggressive chasing **Common and Better Date Mint State Morgan and Peace Silver Dollars.** Like us, they expect their prices will rise significantly when the new Presidential Dollar coins are released into circulation in 2007. We were thrilled to pick up a lot of nicer quality **Mint State Early Morgan Dollar Rolls** last week. Please see our enclosure. They won't last long, so call soon.

It is getting more difficult all the time to find great bargains in foreign silver coins. We scooped up a nice lot of **Mint State Pre-1967 Canada Silver Dollars** that we can offer at a bullion-like price. Please refer to our offer.

Liberty's Outlook is published monthly by Liberty Coin Service, 300 Frandor Ave., Lansing, MI 48912. Telephone: National 800/527-2375 Fax: 517/351-3466 Website: www.libertycoinservice.com, E-mail: path@libertycoinservice.com Patrick A. Heller, Editor. Subscriptions are available at $79.00 per year (12 issues). Send subscription orders and changes of address to the above address. All information is derived from sources believed to be reliable, but accuracy cannot be guaranteed. No guarantee of profitability of any investment or recommendation contained herein is made or implied. Liberty Coin Service has been a dealer in rare coins and precious metals since 1971. The publisher, its principals and associates may, from time to time, have a position in items recommended here.