Liberty's Outlook

Volume 14 Issue 4 Liberty Coin Service's Monthly Review of Precious Metals and Numismatics April 8, 2008

"You Don't Have To Predict It [A U.S. Dollar Crisis]. You Are In It."

—Former Federal Reserve Chairman Paul Volcker Speaking To The Economic Club Of New York Yesterday

P.2 Massive Physical Silver Shortage Causes Premiums To Rise
P.3 April 8—International Monetary Fund Projects $945 Billion In Global Debt Losses

I have been trying to explain for some time that the U.S. dollar and dollar-denominated paper assets were overvalued and likely to fall sharply in value.

They have fallen significantly, even with central banks and governments spending well over a trillion dollars in the past year to prop up an ever shakier financial system.

These ever more blatant attempts to manipulate upward the prices of stocks, bonds, and the U.S. dollar and to suppress the price of gold have lulled a high percentage of the populace. As a consequence, there has not yet been a major flight out of paper assets into gold, silver, and other tangible assets.

Readers who have taken my advice have already profited handsomely. But the real profits will come when the general public wakes up to reality.

The day of reckoning is coming, sooner than most people would expect. When major insiders such as former Federal Reserve Chairman Paul Volcker are willing to state the blunt truth such as quoted in the headline above, the days of soaring gold and silver prices are close at hand.

The main thrust of Volcker's speech was to question the Federal Reserve's action in mid-March to rescue Bear Stearns, the nation's fifth largest brokerage house, an intervention that had not been done since the 1930s during the Great Depression.

Volcker said, in part, "The extension of lending directly to non-banking financial institutions—while under the authority of nominally 'temporary' emergency powers—will surely be interpreted as an implied promise of similar action in times of future turmoil."

Volcker also said that the modern financial system "failed the test" of the marketplace.

Incidentally, the Bear Stearns bailout, engineered by having the company taken over by mega-bank JP Morgan Chase, was widely reported as putting the Federal Reserve on the hook of guaranteeing only $29-30 billion on shaky loans. When the fine print of the deal was examined, JP Morgan Chase wrote to the Federal Reserve asking to exclude a total of $220 billion of Bear Stearns assets, leaving the risk of default on them to fall onto the Federal Reserve (and ultimately U.S. taxpayers). This later news which was given almost no media coverage.

Just last Friday, CNBC commentator Rick Santelli publicly stated that he was worried about U.S. stock values because prices were being "subsidized." Although he did not state how the subsidy has occurred, readers of this newsletter already know.

As I have explained before, when the U.S. government allows its private trading partners to make money from the government's repurchase agreements, these trading partners then use the extra liquidity to do the government's bidding—whether it is purchasing stocks included in the Dow Jones Industrial Average (DJIA), short-selling gold contracts, or whatever they are told.

In theory these 20 companies (including JP Morgan Chase, Citigroup, and major banks and brokerages around the globe) that are allowed to trade repurchase agreements are free to do anything they want with the liquidity. However, they will only be allowed to continue to make fees on these securities as long as they follow government instructions.

In the past month, various manipulations of the value of the U.S. dollar, the stock market, and the price of gold have become almost completely blatant and predictable. Here are some recent examples.

1) In the January newsletter, I stuck my neck out and forecasted that the price of gold would reach $1,000 by March 10. The spot price didn't make it there until March 14th and did not close in the U.S. over $1,000 until March 17.

On March 18, the Federal Reserve Open Market Committee dropped its benchmark interest rates by 0.75% in order to prop up the U.S. stock markets. The market consensus had expected a full 1% decrease. U.S. stock markets enjoyed a brief mild rally, then actually started to decline. That was not the message that the federal government wanted to broadcast, so it ordered its trading partners to buy stocks listed

2008 Year To Date Results

Through April 8, 2008

Precious Metals	
Platinum	+32.3%
Palladium	+22.6%
Silver	+19.5%
Gold	+9.5%
Numismatics	
MS-63 $20.00 Liberty	+18.3%
MS-65 Morgan Dollar	+10.3%
MS-63 $20.00 St Gaudens	+6.4%
US Dollar vs Foreign Currencies	
Canada Dollar	+3.4%
Great Britain Pound	+1.4%
India Rupee	+1.4%
China Yuan	-4.0%
Brazil Real	-4.2%
Euro	-6.2%
Japan Yen	-8.6%
Switzerland Franc	-9.9%
U.S. Dollar Index 72.29	-5.74%
US and World Stock Market Indices	
Dow Jones Ind Average	-5.2%
S&P 500	-7.0%
Russell 2000	-7.1%
London FT 100	-7.3%
NASDAQ	-11.4%
Tokyo Nikkei 225	-13.4%
Frankfurt Xetra DAX	-16.1%
Intrinsic Metal Value Of U.S. Coins	
Lincoln Cent 1959-1982	2.60¢
Lincoln Cent 1982-date	0.62¢
Jefferson Nickel-non-silver	6.79¢
Roosevelt Dime 1965-date	3.08¢
Wash Quarter 1965-date	7.70¢
Kenn Half Doll 1971-date	15.39¢

Inside this issue:

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in the DJIA. Like magic, the DJIA rose by about 3% by the end of the day.

The mainstream media reported the rise in the stock market as due to investor confidence, not to the outright manipulation. However, this alleged euphoria did not last long, with the DJIA giving back most of these gains the next day.

2) Investors around the world, leery that the 0.75% interest rate drop would hurt the value of the U.S. dollar, pushed up the price of gold to more than $1,030 and silver over $21.00 in Asian market trading after the U.S. market closed on March 18. Once again, the market was sending the message that the dollar was facing an imminent huge drop in value. The U.S. government had to stop that, almost no matter what it took.

What it took was a change in the rules. On March 19, major banks and brokers notified clients with margin accounts that allowable leverage in commodity investments was being cut in half, effective in one day. Instead of being able to control $10 million of gold by putting only $1 million down, an investor was going to have to put up another $1 million cash within 24 hours or face liquidation of 50% of their holdings!

This change in the rules has a calamitous effect across almost all commodities. Gold fell almost $60 in U.S. markets on March 19, and more than $20 the next day. Silver dropped by $1.49 on March 19, then settled another $1.49 lower the following day. In three days, silver had fallen more than 15%!

Platinum and palladium also lost almost 5% of its value during the week.

3) Among market manipulation tactics that were executed in order to force down gold prices, the lease rates for gold actually became negative in mid-March. That's right—the lenders of gold were willing to pay borrowers to lease gold!

4) This counterattack against precious metals was well-timed. Part of the careful timing is that the markets in India (the world's largest gold consuming nation) and Japan were closed on March 20. That meant that less gold would need to be mobilized to achieve the desired drop in the price of gold.

Next, markets in the United States and much of Europe were closed on March 21 for Good Friday, with many European markets not reopening until Tuesday, March 25 Even most bullion wholesalers were closed on March 21.

5) When markets around the world returned to normal operating hours on March 25, gold and silver prices started to rise significantly. That presented a new problem to the U.S. government and its allies (referred to as the "Gold Cartel" by the Gold Anti-Trust Action Committee (GATA).

U.S. government officials normally know at least 24 hours ahead of time what financial data it will be releasing to the media. When officials became aware that a report of substantial job losses would be released on the morning of March 28, which would have negative fallout on the value of U.S. stocks and the dollar, they went into action. They arranged for the prices of gold and silver to be clobbered just before the employment report was released, so that investors would be less tempted to flee the dollar and into precious metals. In addition, another surge of stock buying was lined up to hit the market just as the horrible jobs report was released. As demanded by the U.S. government, gold and silver prices fell and the DJIA held steady.

6) On Monday, March 31, gold and silver were clobbered again because if was the last trading day of the calendar month. There are a number of technical traders who track the closing prices as of the last trading day each month, so closing prices on this day have undue influence on investors' trading decisions. Gold and silver prices hit their low closes over the last month on April 1.

7) We are not done yet. The International Monetary Fund (IMF) issued a statement after American markets closed on April 7 stating its intention to go ahead and sell almost 13 million ounces of gold to establish and endowment fund to cover future budget deficits. This is the same gold sale idea that has periodically surfaced since 1999, with the main intended effect to be to hold down the price of gold.

The current incarnation of an IMF gold sale was used to clobber the market earlier this year when originally announced, then later when Treasury officials announced that Congress would approve such a sale (the U.S. casts 17% of the votes to approve such a sale, which requires agreement by at least 85% of the votes—giving the U.S. government veto power on any votes).

The reality of such a sale, which still is not a sure thing to occur, is that it would not start until 2009 at the very earliest, that it would be spread out over several years, and that this gold would only be sold if other central banks reduced their gold sales by matching amounts. In other words, any IMF gold sale would not result in any increase of gold supplies!

The specter of the IMF gold sales had the temporary effect of knocking down precious metals prices yesterday. Gold and silver prices came back strong today.

What's Been Happening During All Of This Manipulation?

Just because prices move up and down doesn't necessarily mean that they are being manipulated.

When bad economic news is released, the normal investor reaction is to reallocate funds away from the affected areas and into safer niches. When there is bad news about the dollar or the U.S. economy, the natural result would be for the prices of U.S. stocks to fall and for the prices of gold and silver to rise.

However, when prices regularly move counter-intuitively with the release of bad economic data, this isn't an accident.

When precious metals prices tumbled on March 20, demand for physical product soared.

Demand was so strong for physical silver that the U.S. Mint ran out of Silver Eagle Dollars, the Royal Canadian Mint exhausted its supply of Silver Maples, and Australia's Perth Mint had no more live fabricated bars or coin for immediate delivery. All three Mints are looking at 3-8 weeks before new orders might be covered.

Private manufacturers of silver ingots and bars are equally far behind, with some quoting shipping times of up to 6-8 weeks after the receipt of cleared funds.

Bullion wholesaler and retailer silver inventories quickly evaporated and premiums rose significantly, even for products to be delivered on a delayed basis. Many silver retailers simply stopped taking any orders.

Here at LCS, we carry a much deeper inventory of physical silver than most coin dealers around the country. We were also aggressive at purchasing immediately available coins and bars that we could locate at reasonable prices. As a result, we were always able to offer customers a choice of various physical silver products for immediate delivery, even if we couldn't offer unlimited quantities of everything.

At the most extreme, we were selling 2008 U.S. Silver Eagle dollars to other dealers for more than 25% above their silver value (though coins that we hope to deliver in four weeks now are available for much lower premiums).

When the price of gold neared $1,000, we began to serve a steady stream of customers selling their jewelry. For the past several weeks, the average customer has had to wait about 30 minutes for an employee to be available to assist them. Some have had to wait as long as 90 minutes. Although this part of our business has soared, it has been dwarfed by the demand from buyers of physical silver. The ratio of silver buyers to sellers over the past few weeks has probably been running about 20 to 1.

Even holders of huge silver short positions on the COMEX have bought silver. In the latest weekly report, the eight largest short positions of COMEX silver have declined by about 60 million ounces!

If industrial silver users start to chase silver just to have it available for fabrication purposes, we could start to see the price really take off. Such buyers are less concerned about the absolute price of silver as most products uses only minute quantities of it. They are more worried that the product is available when needed.

Even I got into the act. When the price of gold and silver tumbled on March 20, I shifted another 10% of my net worth from paper assets into physical gold and silver. These were the largest purchases of precious metals I have ever made for my personal account.

Other New Reasons To Own Gold And Silver

1) Yesterday, the IMF released a report projecting losses from commercial real estate and other consumer and commercial debt to be as much as $945 billion, more than quadruple the amounts already acknowledged. They retracted their statement made a year ago predicting that the effects of the subprime mortgage problem would be limited.

The report reads, in part, "The current turmoil is more than simply a liquidity event, reflecting

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deep-seated balance-sheet fragilities and weak capital bases, which means its effects are likely to be broader, deeper and more protracted." It also warns of "a serious funding and confidence crisis that threatens to continue for a significant period."

2) The silver exchange traded fund operated by Barclay's Bank (symbol SLV) has bowed to public pressure over whether it actually owns enough silver to back outstanding shares by publishing a list of the serial numbers of the bars it is holding.

However, the Perth Mint, the Royal Canadian Mint, and other operators of "pooled accounts" where investors theoretically own some share of a common pool of silver inventory (rather than specifically identifiable ingots) have not yet been willing to publish serial numbers on the bars they are holding to help prove they actually have sufficient silver to cover their liabilities. It seems like all of these pooled account operations are months behind at trying to accommodate customers who want to pay the extra fee to convert their account to specifically allocated silver or to take possession of physical silver. It is probably more practical for holders of such accounts to simply sell their pooled accounts and take the cash to buy physical silver from anther source.

3) A few months ago, the Gold Anti-Trust Action Committee (GATA) filed Freedom of Information Requests with the U.S. Treasury Department and Federal Reserve to receive documents identifying how much gold they have physically in their vaults, identification of who owns such gold, and information about any gold swaps or leasing activity.

To stir up some public interest in getting answers to these questions, GATA is holding a conference near Washington, DC April 17-19. I will be one of the attendees.

This will be GATA's third conference. After the first conference in May 2001 in Durban, South Africa, the price of gold rose 10% in the next two weeks. Since the second conference in Dawson City, Yukon, Canada in August 2005, the price of gold has doubled. It may not be a total coincidence. Although the general media ignores GATA (as do several so-called gold experts whose analyses have been less than on target for the past several years) it seems like the information at these conferences has reached enough people with clout to push up gold prices.

4) The Federal Reserve continues to pour liquidity into the market. Just yesterday it was another $87 billion. Yet, these increases in the money supply somehow are not supposed to be causing inflation.

5) Perhaps most important, after the Fed rescued Bear Stearns, Fed Chair Bernanke then addressed Congress, asking it to extend the Federal Reserve's authority from maintaining a stable banking system to stabilizing the whole economy!

Think of it. If the U.S. economy were healthy, we would never hear a hint of such a plan. That such a plan would even be proposed is a sign of the scary condition of the financial system.

In order to accomplish this, the Fed seeks authority to inspect all financial records and records of trading strategies of pretty much every company operating in the United States.

When the Federal Reserve arranged for the bailout of the Long Term Capital Management (LTCM) hedge fund in 1998, it is widely suspected that the information on that company's finances and trading strategies was leaked to someone at Goldman Sachs before it was revealed to the public. With such insider information (it isn't illegal if the government engages in it) Goldman Sachs reaped huge profits from trades made in areas where LTCM's portfolio was being liquidated.

6) In the Middle East and in China, gold and silver exchange traded funds specifically structured for residents in those nations are being developed. Once open, I expect they will add to a surge in gold demand.

7) One commodity whose price was not affected by the margin rules changes is rice. While prices of other commodities traded on exchanges in the U.S. were knocked down, the price of rice has more than doubled in the past year and is reaching new record highs almost every day. Some rice growing nations are restricting or banning the export of rice to help hold down domestic prices.

The rice market may be more reflective of where prices of precious metals and most other commodities are heading. As the world's population grows and becomes more wealthy, there is more demand for consumer products.

Conclusion—Now Is The Time To Buy Gold And Silver

The precious metals markets will never move in a straight line, even in the absence of government manipulation. Still, with so much negative press coverage for precious metals, I think the future looks tremendous.

In the next two years, I expect gold prices to at least double and silver to do even better than that. As the efforts to suppress prices become more blatant and extreme, that means we are coming closer to the time when prices could take major jumps in one day (gold more than $50 and silver more than $1). Those days could be so close at hand that I urge you to make your purchases sooner rather than later. Call us for assistance.

Liberty's Outlook Reaches More Of The Globe

We know of a number of other coin and investment publications that pass along information that appears in this newsletter. Some coin dealers even post parts of newsletters on their own websites.

A book recently published by the Icfai University Press in India titled *Gold as Investment: Instruments and Trends* by Preeti Phuskele includes a chapter titled "Now Is The Best Time To Buy Gold And Silver." Readers of this newsletter would recognize it as the main essay contained in the January 2007 issue. This was used with permission and Pat Heller and LCS get credit.

Elsewhere, we have found parts of the newsletter quoted on websites as far away as Australia and Japan.

Counterfeit Coins In Counterfeit PCGS Holders

The Professional Coin Grading Service (PCGS) recently sent out an alert that it had learned of counterfeit U.S., Chinese, and Mexican coins encapsulated in counterfeit PCGS holders being offered for sale in online auctions.

Thus far, it looks like all of these auctions of bogus material are being offered by sellers from China. However, there have been contacts made with people in the United States to offer "distributorships" to market counterfeit Chinese Silver Pandas in so-called PCGS holders, so you cannot assume that coins offered by U.S. sellers are necessarily safe.

PCGS also stated that they expect to eventually see genuine coins in counterfeit holders where the coins would be of lower quality than the grade listed on the holder.

PCGS has been successful at getting some of the online auctions cancelled, but not all. The company said it will not disclose the packaging errors that identify the counterfeit holders because it does not want the crooks to know how to make holders that might pass.

I previously reported on the counterfeiting of Numismatic Guaranty Corporation (NGC) and ANACS holders.

These developments were to be expected. For best protection, buyers should buy only from reliable dealers, preferably those subject to U.S. law enforcement Ultimately, customers need to look out for themselves. If a proposed deal sounds too good to be true, watch out. If you don't know the dealer offering a coin, see what kind of references they can offer. If you get evasive answers, that is a good sign of someone to avoid.

Like other good coin dealers, LCS stands behind the items we sell. We offer an indefinite guaranty that the items are genuine as described. We also have many deeply experienced numismatists on staff who are quite fussy about the coins we are willing to offer to our retail customers. As a result, you can buy with confidence from LCS.

U.S. Gold American Arts Medallions Cataloged In 2009 *Red Book*

From 1980 to 1984, the U.S. Mint issued a series of one ounce and half ounce gold medallions intended to compete against the South Africa Krugerrand and Canada Maple Leaf. Called the American Arts Commemoratives, each of the ten issues honored a different American "artist."

Unfortunately, the Mint did about everything wrong in their conception and execution of the program, resulting in a huge flop. For just one example, the issues were never given a face value to make them legal tender coins.

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The Mint changed the designs in 1982 to add "United States of America," to identify gold content to the issues, and adjusted the method of distribution to match how other coins were marketed, but this wasn't enough to save the program. About 85% of the 1982 and 1983 issues were never sold by the distributor and ended up being melted by the distributor.

When the program ended in 1984, the Mint went back to the drawing board and created the successful American Eagle program in 1986.

When the Mint released the final mintages for the American Arts Medallions in 1986, we realized that many issues were far scarcer than many U.S. gold coins that sold at much higher prices. We have sold a number of these scarcer issues at near-bullion prices over the years.

Though all grading services grade these issues, they have never been cataloged in the best selling coin book *A Guidebook of United States Coins* (aka the *Red Book*). Until now. The 2009 edition has just been released with three pages of detailed catalog information. It includes U.S. Mint production figures, which do not tell the whole story of overall rarity. All along, we have contended that these issues would appreciate once they were listed in the *Red Book*. Now we shall see if collectors take renewed interest in this series.

Gold and Gold Coins

Gold ended today at $933.50, down $45.25 (4.6%) from last month. When you consider everything that has been thrown at the gold market in the past month, I consider that result to be spectacular.

Although there has been a steady stream of buyers and sellers of gold in the past month, it has been mostly in smaller quantities than usual. While short-sellers on the COMEX closed out over 3 million ounces of positions in the last 10 days, it seems like most people are waiting on the sidelines to figure out which direction gold will be heading. Speculators hold their smallest net long gold positions on the COMEX than they have for months, for example.

I anticipate that demand will surge once gold makes solid moves back up toward the $1,000 level.

With minimal activity, several premiums rose after spot prices fell, then have dropped slightly. The low premium favorites continue to be the Austria **100 Corona** (3.1%), South Africa **Krugerrand** (3.5%), U.S. **American Arts Medallion** (3.2%), and Mexico **50 Peso** (3.2%).

Among **Common-Date U.S. Gold Coins**, there has been several declines in the past month, somewhat mirroring the drop in gold prices, for coins up through MS-64 quality. Most MS-65 quality coins are up from last month.

The U.S. Mint may finally issue fractional sizes of the U.S. **Buffalo** (5.6%) later this year, but it is not clear whether they would only be sold in proof condition or if bullion issues would also be forthcoming.

Better-Date U.S. Gold Coins continue to be almost impossible to find. There are many dates of significant rarity that, if you can find them, can be acquired surprisingly close to the prices of common-date coins. Smart collectors snap them up instantly when they can be found. At a major coin show in Phoenix last month, I was fortunate to discover a small hoard of **Mint State-62 1880-S $10.00 Liberties** at a price so reasonable we can offer them at a huge discount to catalog value. Please see our flyer for details.

The Month

Gold Range	120.25	12.3%
Net Change	-45.25	
Silver Range	3.71	18.6%
Net Change	-$1.74	
Gold/Silver Ratio		51.4
Net change		+2.2
Platinum Range	230.00	11.3%
Net Change	-27.00	
Platinum/Gold Ratio	2.15	

Date	Gold	Silver	Platinum
Mar 12	978.75	19.91	2,032.00
Mar 13	992.25	20.35	2,070.00
Mar 14	998.00	20.57	2,049.00
Mar 17	1,001.50	20.22	1,940.00
Mar 18	1,003.25	19.89	1,945.00
Mar 19	944.75	18.40	1,881.00
Mar 20	921.50	16.91	1,860.00
Mar 21	918.00	17.10	1,840.00
Mar 24	918.25	17.07	1,860.00
Mar 25	935.00	17.81	1,968.00
Mar 26	949.00	18.35	1,990.00
Mar 27	948.75	18.51	2,010.00
Mar 28	930.00	17.90	2,005.00
Mar 31	916.25	17.28	1,990.00
Apr 01	883.00	16.86	1,912.00
Apr 02	895.25	17.15	1,948.00
Apr 03	905.00	17.44	1,982.00
Apr 04	909.00	17.72	2,000.00
Apr 07	922.75	18.09	2,016.00
Apr 08	914.00	17.68	1,998.00
Apr 09	933.50	18.17	2,005.00

London Silver Market Premium To New York Silver Market = 6¢

Gold, silver and platinum quotes are working spots at 1:45 EST/EDT each day, quoted in U.S. dollars per troy ounce.

Silver and Silver Coins

Silver closed today at $18.17, a net drop of $1.74 (8.7%) from four weeks ago.

The COMEX has provided definite proof that one or more of the holders of huge short positions is buying back a lot of their contracts. To the extent that this activity continues, it will only accelerate the eventual rise in the price of silver.

There is a lot of concern that companies who are selling silver in pooled accounts or are offering certificates may simply not have enough silver to cover all liabilities to customers. At least one major fabricator of silver ingots is under investigation by that state's attorney general's office for taking too long to ship orders.

For your own protection, I advocate two steps. First, don't buy any silver in certificate form or pooled accounts. Buy physical silver that you can specifically identify as yours. Second, take possession of your physical silver. If you have it in your own hands, you don't have to worry if the company you bought it from fails. I am even partial to physical silver you can get your hands on quickly as bad things can happen if delivery is promised 4-8 weeks down the road.

I also have significant concerns about buying a silver position via an exchange traded fund. You can only buy and sell these securities when stock exchanges are open for trading. Remember that after September 11, 2001 all U.S. stock exchanges were closed for several days. If you had physical silver in your possession then, you could have traded it immediately, while you were stuck with stock in an exchange traded fund.

The best deal for physical silver remains U.S. **90% Silver** Coin (2.1%). You save more than 50 cents per ounce compared to the cost of **100 Ounce Ingots** (5.0%). As the silver price rises, I expect just about all premiums to decline, but 90% will probably show a lesser percentage decline than almost any other form.

This month, we are fortunate to be able to offer three different specials in silver coins: **Superb Gem Mint State-66 and –67 1880-S Morgan Silver Dollars, Choice Mint State-63+ Rolls of 1955 Franklin Half Dollars, and Very Choice Mint State-64 1888 Morgan Silver Dollars.** They each offer a lot of rarity for affordable prices. See our enclosures.

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