

The Recession Deepens—What Does It Mean For Gold, Silver And Rare Coins?

P.3 Gold Anti-Trust Lawsuit On Hold Until Fall! Defendants Running For Cover!

After the economic news reports of the last month, is there any American left who does not realize that we are in the grips of a recession?

1) Second quarter 2001 profits of publicly-held U.S. companies dropped 18% compared to a year earlier (and in the high-tech sector, profits plummeted 64%!). Expectations for the third quarter are almost as gloomy.

2) Companies are delaying and trimming their capital equipment purchase budgets.

3) Unemployment is rising almost every month and has reached levels not seen for several years. While the actual unemployment level is not considered serious—yet—the trend is definitely going in the wrong direction. Almost every day, major layoffs are announced.

4) Consumer debt is growing and the savings rate is still negative.

5) In the past few months, at LCS we have seen a surge of people liquidating assets. In many instances, the sellers specifically tell us that they need the cash flow to pay bills. Other dealers tell us they are experiencing this same increase in business.

The last time we saw consumers liquidating in such volume to get cash flow was in 1983 when times were tough for the automotive industry in Michigan.

6) While one technical definition of a recession is denoted by a drop of more than 20% in major stock market, the Dow Jones Industrial Average (DJIA) has not done so. However, if you measure the decline in market value of all U.S. publicly-held companies, I think it is much more than 20%.

Some have been in denial,

pretending or hoping that the recession could be avoided. They point to the apparently low level of inflation and that consumers have continued spending as if there were no recession.

The inflation figures are deceiving. If you look at the raw inflation numbers and compare them to prior data, it does look like inflation is being held in check. But, if you consider the acceleration in productivity with technological advances, I think that we would now actually see a general decline in prices, not just in selected segments such as computers, long-distance telephone service, and the like. Instead of general price declines of perhaps the 3% that we might be enjoying, we are actually suffering 3% inflation. So the true inflation rate may actually be 6%!

I'm not sure what the actual inflation number is, except that I think it is much higher than being reported.

As for the strength in consumer spending, that is easy to explain. Retailers are slashing prices (and profit margins) to maintain existing sales volume, in many instances sacrificing future sales. The automotive industry is an perfect example. General Motors is allowing some recent lease customers out of their current leases with no penalty if they lease a new car. This strategy will reduce profits from past leases, will increase the supply of used vehicles, leading to lower prices for them (and making new vehicles less price-competitive), and eventually will result in a multi-hundred million dollar write-off for the GMAC financing subsidiary. But those are only secondary considerations as GM is trying to keep up their stream of unit sales now.

However, the continuing strength in consumer spending is in doubt. As long as employees felt secure in their jobs, they were willing to take advantage of incredible sale

prices. However, as the news of sharply lower corporate profits and growing unemployment sinks in, consumers are likely to cut back on spending. The next few months could be the crucial turning point for that.

As the recession deepens, it also becomes evident that it will take longer to pull out of it than previously thought.

The recession will have consequences for precious metals and rare coins. What will they be?

Precious Metals And Rare Coins In A Recession

First, let me say that I don't *know* what will happen to the prices for precious metals and rare coins, or whether volume will be up or down.

There are factors other than the recession that will affect supply and demand. So, let me review what may happen in different scenarios.

Falling consumer demand: When consumers are uncertain of their future economic well-being, most cut back on their discretionary spending. They don't move as soon, they keep their cars and trucks another year, they postpone the big vacation or home remodeling, and the like.

As demand for these goods and services falls off, there is some chance that this could lead to layoffs, which then leads to a cycle of even more cutbacks in consumer spending, more layoffs, more spending cutbacks, and so forth.

Silver, platinum and palladium are primarily industrial metals. If production of goods declines, such as fewer automobiles and trucks, demand for

(Continued on page 2)

Inside this issue: Superconducting Silver Wire Usage Rising page 2
Buffalo Commemoratives Rise And Fall page 3
Heller Elected A Director Of ICTA page 4

(Continued from page 1)

these metals will likely drop. That would likely push down prices.

In fact, some of the recent weakness in the prices of platinum and palladium may well be linked to investor expectations of reduced future demand. This fear may also be keeping silver from rising from its current doldrums.

In past recessions and depressions, the price of gold has acted in different ways. There is no easy assumption to make simply because consumer demand is falling.

Discretionary demand for expensive rare coins will likely decline, which we have already seen. However, I suspect that the mainstream standard inexpensive collectible coins will be little affected. I doubt that many people will stop collecting Statehood Quarters that are acquired at face value solely for economic reasons.

Collectors seem to have the attitude that buying rare coins is not consumption. Instead, it is a capital acquisition and an asset that can be resold in an emergency. So, even though rare coins can be considered a discretionary purchase, they aren't hammered as hard as other purchases that are literally consumed.

Rising inflation: If inflation breaks out higher than expected, expect demand for gold, silver, and rare coins to rise. We could have a moderately strong market all the way to another breakout like 1979-80.

Platinum and palladium will likely enjoy some increase in price from inflation, but I would not expect them to match the increases in gold, silver, or rare coins.

U.S. dollar weakness: If politicians decide that the way to get out of the recession is by increasing exports, look for the value of the U.S. dollar to decline against other currencies. This may also happen if falling corporate profits makes the U.S. unattractive for foreign investments.

In this circumstance, expect the prices of gold, silver, and rare coins to increase by more than the decline in the dollar. Platinum and palladium will likely follow along to a lesser degree.

Quick recovery: Because of their industrial usage, a return to boom times will help silver, platinum, and palladium more than gold and rare coins.

However, this will also likely increase demand for gold and rare coins as well, as shown when a study commissioned by the World Gold Council found that worldwide gold demand increases at a faster rate than the increase in wealth.

The above list does not exhaust all the possibilities for how the recession will progress. However, I think you see the general idea. In the worst situation, the prices of silver, platinum, and palladium may drop although I think the market has already anticipated most of the decline. In some circumstances, gold and rare coins perform handsomely.

The obvious conclusion is that a prudent investor will hold an "insurance portion" of his net worth in precious metals and maybe even in rare coins. If you need suggestions on how to build your holdings, please give

us a call.

Construction Begins On Silver Superconductor Plant

The American Superconductor Corporation of Westborough, Massachusetts has begun construction of their first factory to mass produce silver-encapsulated high-temperature superconducting wire.

Because of its low resistance to electrical current, this wire will be used in the manufacture of energy efficient motors and generators used by electric utilities.

When this factory opens, the company expects to immediately increase their production of this wire by 20 times, and by 40 times within five years. The company now uses about 125,000 ounces of silver to make this product. At expected full production, the company will use 5 million ounces of silver annually to make this wire. This would increase annual worldwide silver consumption by 0.5% all by itself!

Actually, the use of silver to improve the efficiency of electricity generation, transmission, and utilization is the third largest (and fastest growing) source of silver demand. Almost 150 million ounces were used for these purposes in 2000.

This is just one more example of how demand for silver could hold up, even in an economic environment of falling consumer demand.

Gold Anti-Trust Action

Did You Know?

The technology for safe storage of coins made of gold, silver, copper, brass, bronze, and nickel made great strides over the years. Decades ago it was realized that many coin albums, the kraft envelopes, coin roll wrappers, and the canvas bags used to store coins contained sulfur. This sometimes led to corrosion or tarnish on coins.

Two decades ago, it was realized that widely-used vinyl (polyvinyl chloride or PVC) storage products often damaged coins through a chemical reaction between copper (which almost all coins contain) and the ingredient in vinyl which makes it soft and pliable.

Since then, knowledgeable collectors and dealers have been using inert plastics such as mylar, polyethylene, and polystyrene to keep coins from coming in contact with sulfur, vinyl, or any kind of acid.

While these products (including the holders used by the grading services to encapsulate coins) are highly effective, they do not provide complete protection against corrosive gases in the air.

A newly introduced line of products takes coin protection technology to the next level. Sold under the brand name of "Intercept Shield" are 2"x2" holders for raw ("uncertified") coins, a double protection box for certified coins, and a series of U.S. coin albums.

Using patented technology developed by Lucent Technologies, the coins are surrounded by a solid state material which has the look of cardstock. When corrosive materials come in contact with the Intercept Shield material, it is instantly neutralized.

The material provides 10 years of corrosion protection for each thousandth of an inch thickness under normally encountered corrosive conditions.

This technology is already being used by such organizations as the British Royal Mint, Getty Museum, Guggenheim Museum of Art, Philadelphia Museum of Art, NASA, and Williamsburg Conservation.

LCS carries Intercept Shield products. We will soon begin shipping the more valuable uncertified U.S. coins packaged in the Intercept Shield 2"x2" holders. When you offer coins for sale back to us, we want them to be equally as beautiful and the day you received them from us. Your inquiries about holders and albums are welcome.

(Continued from page 2)

(GATA) Committee Lawsuit On Hold Until Fall; Defendants Trying To Hide Their Tracks

It may seem like the excitement over the GATA meeting in South Africa in mid-May, after which the price of gold jumped 12% in two weeks, has now dissipated.

Actually, it is dormant. The clerk's office of the Massachusetts court where the lawsuit was filed said that the court is unlikely to hold a hearing on the defendants' motions to dismiss the suit until the fall. Should the suit be dismissed and not appeal filed, the case will stop dead in its tracks.

However, it the judge does not dismiss the case, then the matter proceeds to Discovery, where the defendants will be compelled to answer plaintiff's questions under penalty of perjury.

Recent actions of the U.S. government agencies and individuals that are defendants to this suit are perhaps providing even more ammunition for the plaintiffs.

For instance, at the request of two constituents, Hall of Fame baseball pitcher (Detroit Tigers and Philadelphia Phillies) and now U.S. Senator Jim Bunning wrote a letter to Federal Reserve Chairman Alan Greenspan. In the letter, Bunning asked for more information about remarks of Federal Reserve General Counsel Virgil Mattingly documented in the minutes of a January 1995 meeting of the Federal Open Market Committee (FOMC). Mattingly referred to the U.S. Treasury Department's Exchange Stabilization Fund (ESF) as having already engaged in gold swaps, which other government officials are now claiming have never happened!

Attached to Greenspan's June 25, 2001 response to Bunning was a copy of a memorandum dated June 8, 2001 that Mattingly sent to Greenspan. In the memo, Mattingly claims that he cannot clearly recall of what he said. He goes on to say, "I have no knowledge of any 'gold swaps' by either the Federal Reserve or the ESF. I believe my remarks, which were . . . transcribed inaccurately or otherwise became garbled."

What Mattingly did not say in his memo is that minutes of these meetings are not published until every attendee

signs off on the accuracy of the transcription. The effect of Mattingly's current posture is that any published government denial of gold trading activity cannot be relied upon as accurate (unless Mattingly is now lying outright!).

GATA researchers have recently uncovered more evidence of the U.S. government trading gold. In the minutes of the March 26, 1991 (page 19), former Fed governor Wayne Angell said, "I would hesitate for us to have foreign currency holdings that have swap puts that just sit there, [which] is now fast becoming the case for gold." Although the meaning of "swap puts" is ambiguous, it is likely that they are the very same swaps that Mattingly referred to in 1995.

Also, the Treasury has recently changed two public reports to obscure the existence of any gold trading activity.

1) Beginning with the February 2001 issue of the Federal Reserve Bulletin, the report on the discrepancies between the Fed's gold certificate account (which by law must include certificates for all gold held by the Treasury) and with the actual total U.S. gold stocks, was changed. Previously, one line was described as "Gold stock, including the Exchange Stabilization Fund." It is now simply called "Gold stock."

2) The Treasury's Financial Management Office issues a monthly Status of U.S. Treasury Owned Gold (available online at <http://www.fms.treas.gov/gold/>). Beginning in September 2000, the report reclassified about 54 million ounces of gold stored at the U.S. Mint in West Point, New York from "Gold Bullion Reserve" to "Custodial Gold Bullion." The gold at the Mint in Denver and at Fort Knox was not reclassified.

This reclassification led to a storm of inquiries from Senators, Congressmen, and private individuals, asking for the explanation for the change. Despite promises of a response, none have been forthcoming.

Instead, the Treasury revised the report in May 2001. Now all the gold at West Point, Denver, and Fort Knox is simply called "Deep Storage Gold—formerly called Gold Bullion Reserve or Custodial Gold Bullion Reserve." The term "Deep Storage Gold" has yet to be publicly defined by the Treasury.

In sum, this lawsuit is lying dormant

for now. If the judge lets it proceed to the discovery stage, there is a good chance that that event (even before winning the lawsuit) could spark a tremendous rally in the price of gold.

There are other excellent reasons to own gold as part of your holdings: 1) the long-term fundamental shortage of new supplies to cover growing demand, 2) the threat of recession-fighting inflation in the U.S. destroying the value of the dollar, and 3) the possible decline in the value of the U.S. dollar as the European nations convert to the Euro at the beginning of next years. However, it may be prudent to weight your holdings even heavier toward gold because of the possible result of the GATA lawsuit. If you do so, the time to act is now. Call us today!

Buffalo Commemorative Market Peaks, Falls!

As I told you last month, the recently issued Silver Dollar Commemorative honoring the Indian Head or "Buffalo" Nickel was enjoying healthy price rises after a complete sellout in only two weeks.

The coins first went on sale June 7 and were all gone by June 21. Just over two weeks ago, the coins peaked, where wholesalers were bidding \$100 or more for the Proof dollars that had just been sold by the U.S. Mint for \$33.

Then prices started to slide as more buyers received their coins and decided to take the unusually large quick profits.

A few days later the slide accelerated with a rumor, as yet unconfirmed, that the Director of the Smithsonian Institution had requested that the Mint strike another 250,000 coins on top of the 500,000 that had already sold (he has a strong incentive to do so as the Smithsonian Native American Museum receives from the Mint \$10 per commemorative sold!).

In the past two weeks, prices for the individual dollars are down about one-third from the peak. If additional coins are struck, expect prices to slide further. If you purchase coins looking to make a quick profit, don't wait any longer to sell. If you are interested in owning some of these coins, I suggest waiting a few months for lower prices.

Gold and Gold Coins

Gold experienced one of its quietest months over the past few years, ranging

(Continued on page 4)

(Continued from page 3)

a mere \$6.25. It ended today at \$267.25, down \$1.00 (0.4%) from four weeks ago.

Investment demand for physical gold has also been quiet. However, liquidations picked up in the past month. Typically sellers said they needed the cash flow, rather than making comments that they expected the price of gold to decline.

Some premiums softened in this quiet market. I like the low premium issues even more: the U.S. **American Arts Medallion** (2.3%), South African **Kruggerand** (2.9%), and Austria **100 Corona** (2.5%).

Prices for high grade **Common-Date U.S. Gold** softened significantly over the past month from light demand. Moderate quantities are available. Any kind of pick up in demand will almost certainly result in an quick 10-20% rise in price. Now is a great time to buy.

Bargains can also be found in world gold coins if you are patient. For instance, the huge Norwegian Gold Hoard is now almost all dispersed. Prices for several coins included in the Hoard have already started rising. Then there are bargains such as the **Choice Mint State-63+ 1915 Denmark 20 Kroner** that we just purchased at our lowest price ever! See our flyer for details.

Supplies of the scarcer U.S. American Arts Medallions have tightened in the past decade. It has taken us more than two years to acquire enough of the **1982 1/2 Ounce Gold Frank Lloyd Wright Medallion**. But the money-saving price was worth the wait. Refer to our offer for details.

Silver and Silver Coins

Silver closed today at \$4.17, down seven cents (1.7%) from a month ago and also the lowest close in more than four years

The quiet demand for investment silver in the past month has led to softer premiums, especially for U.S. **90% Silver Coin** (6.0%) and U.S. **40% Silver Coin** (6.9%). In the past few weeks, though, we have seen a gradual uptick in demand.

The price of all forms of physical silver is still significantly higher than for paper contract silver, a condition I ex-

The Month

Gold Range	\$ 6.25	2.3%
Net Change	-1.00	
Silver Range	.11	2.6%
Net Change	-.07	
Gold/Silver Ratio	64.1	
Net change	+0.8	
Platinum Range	118.00	21.0%
Net Change	-118.00	
Platinum/Gold Ratio	1.67	

Date	Gold	Silver	Platinum
Jul 11	268.25	4.24	563.00
Jul 12	266.75	4.24	558.00
Jul 13	267.25	4.28	551.00
Jul 16	267.00	4.19	552.00
Jul 17	268.00	4.23	541.00
Jul 18	270.50	4.27	523.00
Jul 19	269.50	4.22	512.00
Jul 20	270.00	4.22	505.00
Jul 23	268.75	4.24	495.00
Jul 24	269.75	4.24	505.00
Jul 25	267.50	4.22	509.00
Jul 26	266.25	4.23	507.00
Jul 27	267.50	4.21	504.00
Jul 30	264.25	4.19	474.00
Jul 31	266.25	4.22	474.00
Aug 01	267.50	4.23	474.00
Aug 02	267.50	4.22	482.00
Aug 03	268.00	4.22	481.00
Aug 06	267.25	4.19	470.00
Aug 07	267.25	4.17	445.00

London Silver Market Premium To New York Silver Market = 3¢

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

pect to continue for the indefinite future.

Two weeks ago, a long-time customer took me to task. He said that he loves the information in this newsletter but he was exasperated that my price predictions were not happening within my forecasted time frame. He suggested that I might want to stick to analysis but avoid the far trickier task of trying to predict how much and when prices are likely to move.

In that spirit, let me go back to my prediction in the April 4, 2001 newsletter. I said, "I also expect the price of silver to break upward by the middle of 2001. But I think prices will easily reach \$8.00 and could go all the way to \$20.00."

Obviously, silver is no where near to \$8.00 now and has no prospects for doing so

soon. So, if you will be so kind, let me revise that forecast. Here goes.

Over the past 11 years, well over 1 billion ounces of silver have been consumed to cover the shortfall of supply against demand. Huge annual shortages will continue for at least the next several years. Though no one knows exactly how much silver remains available to cover future shortages, there are obvious signs of dwindling inventories. I fully expect silver prices to be much higher in the future. I am so confident of that result that I have increased my personal silver holdings substantially. I fully expect to sell them for at least \$10.00 and possibly even \$20.00 per ounce.

Right now, 90% coin is the best buy. It has a ten cents per ounce advantage over **100 Ounce Ingots** (10.7%). Very large quantities of any of these forms could take time to locate.

U.S. Silver Eagle Dollars (40.8-55.2%) and **circulated common-date Morgan and Peace Dollars** (128.8%) are too expensive to be considered as ways of buying silver bullion, even though they have fallen in price and premium from last month.

Nice **Classic U.S. Silver Commemoratives** are getting even tougher to find. Fortunately, we can offer a small group of the low-mintage **Gem Mint State-65 1949 Booker T Washington Half Dollars** at a great price. See our flyer.

Heller Elected To Board Of Directors Of National Trade Association

This issue of *Liberty's Outlook* is being finished one day early to allow General Manager Pat Heller, the editor of this newsletter, to travel to Atlanta to attend the huge American Numismatic Association convention. There he will attend his first meeting as a newly-elected member of the Board of Directors of the Industry Council for Tangible Assets (ICTA), the national precious metals and rare coins trade association.

ICTA proved to be of tremendous help in the successful effort to establish a sales and use tax exemption for rare coins and precious metals in Michigan. Among ICTA's top priorities now are opposition to an internet sales tax and securing sales tax exemptions in other states.