Liberty's Outlook

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Precious Metals, Rare Coins Stay Strong Amid Stock Market Turmoil, Falling U.S. Dollar!

P.2 Gold Mine Production, Other Supplies Declining!
P.3 More Corporate Accounting "Surprises" On The Way!

For much of the last year, the rise and fall of gold and silver prices has largely been in opposite reaction to the change in the value of the U.S. dollar and of the U.S. and world stock markets. This last month proved little different.

Just look at the chart at the right. Gold has outperformed the listed stock indices by one-third to more than 50% in the past year! Silver and platinum have done nearly as well, despite a decline in industrial demand!

Even rare coins have solidly outperformed most paper assets.

Silver and gold prices today are lower than they were a month ago. This should surprise no one, even though I think we are still in the early stages of both 1) a decline in the value of the U.S. dollar and 2) a strong bull market in gold, silver and rare coins.

Several factors helped bring down gold and silver prices in the past two weeks including:

1) Short-term investors cashing out profits;
2) Sales by investors that anticipated a sell off of precious metals stocks and precious metals by other investors who needed liquidity to meet margin calls on other investments; and
3) Sales by investors looking for liquidity to cover margin calls on other assets.

Once gold and silver dropped to levels not seen in a month or two, short-term paper traders shorted the market to make profits from a further decline in prices.

When gold threatened to drop below $300 twice in the past two weeks, a sudden jump in demand from India and elsewhere in the Far East turned the market around quickly.

In the past few days, the U.S. dollar and the U.S. stock markets have regained a small part of their recent losses that saw, for instance, the Dow Jones Industrial Average and the NASDAQ touch multi-year lows. When asset fall quickly in value, they will often fall too far, giving courageous investors the opportunity to make some extra profits on the rebound.

It is entirely possible that most of the bad economic news is now behind us. But that doesn't mean that the news will suddenly become all positive. As we have seen in past stock market declines (for instance in 1973-4), it can take many years for the stock markets to return to pre-crash levels.

That is all the more likely because many investors badly burned in the past two years are not inclined to quickly jump back into the very same markets where they suffered their recent losses.

The financial reports coming out confirm that we are not likely to emerge from the recession anywhere near as soon as expected.

It was only a few months ago that Federal Reserve Chairman Alan Greenspan indicated that the Fed would likely begin raising interest rates in the second half of 2002 to "manage" the expected economic recovery. That plan is now forgotten as economists fear a contraction in the U.S. economy.

In the past week, Goldman Sachs, Lehman Brothers, Deutsche Bank Securities, Dresdner Kleinwort Wasserstein Securities, and other brokerage firms started forecasting that the Fed will actually drop the interest rate by year end, perhaps as much as 3/4%, even though it is already at its lowest level in more than 40 years!

Any decline in the interest rate will further discourage foreigners from investing in the U.S. This will almost certainly lead to a fall in the value of the dollar, which may be the Fed's plan for ending the recession.

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Last 12 Months Change In Value

August 6, 2001-August 6, 2002

Precious Metals	
Gold	+14.3%
Platinum	+12.3%
Silver	+10.0%
Palladium	-31.1%
Numismatic Coins	
1936 Mercury Dime, PR-65	+47.7%
1937 Buffalo Nickel, PR-66	+40.0%
1936 Walking Half, PR-65	+39.1%
$20.00 Liberty, MS-60	+15.3%
$20.00 St Gaudens, MS-60	+13.4%
US Dollar vs Foreign Currencies	
Canada Dollar	+3.9%
Japan Yen	-2.4%
British Pound	-7.9%
Euro	-9.0%
Swiss Franc	-12.0%
US and World Stock Indices	
NASDAQ	-38.1%
Frankfurt DAX	-37.9%
S&P 500	-28.4%
London FTSE 100	-25.2%
Dow Jones Industrial Average	-20.4%
Nikkei 225	-20.2%

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At the U.S. dollar declines in value, it makes U.S. exports more affordable to the rest of the world, thus encouraging more international sales. At the same time, imports become more expensive in the U.S., discouraging such purchases. Generally, this will stir domestic manufacturing activity and, so the theory goes, the economy recovers.

The likelihood of a drawn out economic recovery will spur investors to seek other places to allocate their remaining wealth. With their stellar track records over the past year, gold, silver, and rare coins are attracting noticeable amounts of new money.

While this rise in investor demand is helping to spur the bull markets in gold and silver, I think it is less important than the tightening of supplies of these metals.

Last month, I detailed the declining inventories of physical silver and the continuing huge shortages of supplies to cover continuing demand. Now let me give you some of the reasons why the supply of gold is likely to continue to tighten in the coming years.

Gold Supplies Likely To Continue To Decline Over The Next Several Years

1) Annual physical gold demand is well over 150 million ounces. Although mining production rose during the 1990s, it has flattened out at about 83.5 million ounces. The shortages have been covered by recycling, government sales, sales of future production by the mines, short-sales by commodity and futures investors, and the leasing of gold primarily from central banks

The low prices of the past several years have discouraged exploration and investment in new mines. A study by Beacon & Associates forecasts that gold mine output will drop by 25% within 7 years if the price of gold remains under $300. It will take a price well above $300 to encourage enough new mines to replace those that are exhausted.

2) Almost 20 million ounces of gold are recycled annually. Gold is already precious enough that it would require an extreme price increase to boost that level by much.

3) Governments and central banks are currently selling gold at much higher levels than ever before—about 17-20 million ounces. However, this needs to be offset by the rising demand for gold from the Chinese and Russian governments. Because of the 1999 Washington Agreement and its anticipated successor treaty in 2004, the net sales of about 15 million ounces will likely stay steady for the next several years.

4) The aggressive programs by gold mines to pre-sell future production in the 1980s and 1990s has, on a net basis, now turned in the opposite direction. Here is an example of how far some of the mines have accelerated their gold sales:

Gold Mine Company	*Years of Gold Production Pre-sold*
Placer Dome	12.0 years
Sons of Gwalia	11.6
GRD	9.6
Ashanti	8.7
Aurion Gold	8.6
Hill 50	6.5
Normandy NFM	4.1
Lihir Gold	4.0
Cameco	4.0
Cambior	3.1
Barrick Gold	3.0
TVX Gold	2.2
Aurora Gold	1.9
Anglo Gold	1.8
Mim Holdings	1.4
Newmont/Norm.	1.2
Resolute	1.1
Harmony	1.0

Combined, the gold mines have pre-sold almost 95 million ounces, more than one year's worldwide mine output!

In 2002, unlike earlier years, the mines are reducing their net total of pre-sold gold production. Instead of adding 5-15 million ounces to annual gold supplies, this reduction will likely reduce gold supplies by 5-10 million ounces for the next few years.

5) Gold leasing is also turning a corner. Central banks and governments are willing to confess to leasing a total of at least 160 million ounces of their gold reserves. Researchers such as Frank Veneroso believe the correct total of leased central bank gold to be between 300 million and 500 million ounces.

With central banks and international institutions like the International Monetary Fund holding only about a billion ounces of gold, it is obvious that they cannot keep increasing their leased gold supplies indefinitely.

And why would they want to risk the loss of their capital reserves, now that lease rates are barely returning 1%? At a meeting of the London Bullion Market Association in June, Jan Lamers, the head of bullion operations at the De Nederlandsche Bank, the Dutch central bank, revealed that his bank had previously leased about 4.5 million ounces of gold. But with current low returns the bank had started withdrawing gold from the lending market. He also stated his belief that other central banks were also calling in expired leases rather than renewing them.

Gold leasing operations had added 20-30 million ounces of gold supplies each year recently. That trend is now diminishing and may even reach the point of reversing the flow of gold.

Obviously, between lower mine production, reduced mine selling of future production, and the decrease if not outright reversal of central bank gold leasing, the gold market is facing some huge shortages in the next few years—if gold prices do not jump sharply.

Into the supply/demand equation may come a new factor. At a recent gold mining/dealing conference in western Australia, Pierre Lassonde, president of Newmont Mining Corporation (one of the world's largest gold mining operations), announced that his company is working with the World Gold Council (WGC) to produce a new instrument which would absorb between 16 and 32 million ounces of gold each year. He did not give details, but said he is working with Chris Thompson, the non-executive chairman of Gold Fields (which is the world's largest gold mining operation in terms of market capitalization), who is also the new chairman of the WGC. With these two men teamed up on whatever project they have in the works, one can expect a significant announcement within the next few months.

It seems obvious to me that gold is due for a major price increase as a result of declining supplies. When? By how much? That I just cannot forecast with any precision. Let me just say that we could be looking at a price explosion rather than a simple increase. And it could happen almost anytime within the next few years.

And it also could happen without regard to the strength or weakness of the U.S. dollar or the stock markets.

Even though gold is higher than it

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was last year, I still think we are in the early stages of a bull market. Don't miss it.

More Corporate Accounting "Surprises" On The Way!

At any time, the market can be affected by bad news from corporate missteps and failures. In the past year, the pace of corporate bankruptcies and revelations of accounting chicanery has been almost mind-numbing.

Investors are so shell-shocked that they are almost expecting more bad news to come at an accelerated pace. Stock market valuations supposedly already discount these investor fears.

Well, maybe they do and maybe they don't. What I can tell you is that there are a lot more accounting "surprises" on the way.

The "surprises" will take several forms. First, you will have more bankruptcies in the near term. Second, you will have more "off-the-books" debt that will reduce the attractiveness of companies practicing this method of accounting. Third, you have unexpected losses from lawsuits. Fourth, you have technological shifts in the economy that will hit well-established companies more than presently anticipated. Fifth, and almost certainly not last, you have industries that are just not as healthy as the current market values indicate.

Let me give you examples of each:

Near-term bankruptcies: Perhaps the largest looming bankruptcy is Genuity. This company is part of the backbone of the internet, with 17,500 miles of high-capacity lines. When its potential merger with Verizon fell through last week, the company was in default on $2 billion in debt. It has less than 2 weeks to avoid bankruptcy, which probably means it will be sold at a fire-sale price.

Off-the-books debt: In a move to minimize hidden corporate debt like that which sank Enron, the Financial Accounting Standards Board (FASB) will consider a possible new accounting rule requiring most of this debt be included in corporate balance sheets rather than buried in the footnotes.

The largest form of off-the-books debt is securitized lending. This is a form of financing where a bank or other lender bundles up a group of loans it has made such as car loans, mortgages, or credit card receivables and sells it as a security similar to a bond. When the lender receives the cash flow from this sale, it can then make additional loans.

Securitized debt is attractive because, even though total profits on this debt are lower, the lender can seem to be making profits without using any assets. It increases the return on assets and equity that is on the books, making investors happier.

There may be as much as $6 trillion in securitized debt omitted from U.S. corporate balance sheets. Citigroup has $204 billion outstanding, JP Morgan Chase has $75 billion, MBNA has $73 billion (compared to on-balance sheet assets of only $45.4 billion!). Ford Motor Credit and GMAC are big players, with this process making the 0% financing promotion less costly to the auto manufacturers.

At the very least, if companies are required to put these debts on their books, the economic recovery will be stalled. Putting this debt on the books will put most such companies into default on their debt covenants. It will lead to higher interest costs and lower profit returns as a percentage of assets and equity.

The FASB is not pushing for all such debt to be booked. It would only have to be put on the balance sheet if the corporation controls the entity that handles the trading of the securitized debt. That would call for booking only about $1 trillion in off-the-books debt.

Still, even a trillion dollars of debt suddenly appearing on corporate reports will likely scare investors more than they already are.

Lawsuits: When HIH Insurance, Ltd. became one of Australia's largest bankruptcies ever, the National Indemnity subsidiary of Berkshire Hathaway and broker Goldman Sachs were sued. A Royal Commission uncovered evidence that Berkshire Hathaway worked with FAI, Ltd. a contract that was "designed to enable FAI to book a net profit on the transaction" in the year that FAI was bought out by HIH. Goldman Sachs had been a potential buyer of FAI, but pulled out when it discovered FAI's accounting chicanery. However, Goldman Sachs then was hired by FAI to assist in negotiating the sale to HIH, but failed to disclose the financial problems.

This is just one example of the flood of lawsuits we are bound to see.

Technological shifts: While other telecoms have crashed, stocks of companies like Verizon, BellSouth, and SBC Communications have declined only about 30% in the past two years. These three companies combined to earn $20 billion last year. Their market capitalization now totals about $240 billion.

However, the future is not as promising as most people realize. Local phone companies serve 180 million with the expectation that the number will keep growing. However, in 2001 the number of local phone lines dropped by 9 million, about 4.7%. Only once since 1885 has the number of local phone lines declined in a year and that was during the Great Depression.

About 3 million customers abandoned a local phone line to exclusively use a cellular phone. Another two million lines were dropped because technological advancements make it possible to use the same phone line for both a telephone and an internet hookup simultaneously. Cable operators enticed 600,000 Bell customers into using phone service through their cable lines. Then companies such as MCI are peeling away customers by packaging unlimited local and long-distance phone usage with free enhanced services such as caller ID.

Even if Verizon were to keep local customers through offering cellular service, the profit margin drops about 75%! Verizon recently issued new debt to make $17 billion in dividend payments. The company is now on a credit watch by Moody's for a possible downgrade.

Even though the Bells seem solid now, look for bad news in the next few years.

Overvalued industries: Perhaps the most overvalued industry today is cable. It you look at the industry's market capitalization and divide it by the number of subscribers, you come up with a value of $3,500 per customer. The industry has averaged a 5% pre-tax return on assets for the past 18 years. Analysts typically focus on operating income before subtracting interest, taxes, depreciation, and amortization and ignore important information such as net income and return on capital.

The industry is facing a continuous run of upgrades and new technology that is chewing through cash. Cox Communications spent more than 54% of its 2001 revenues on capital expenditures. AOL Time Warner, AT&T, Cablevision, and Comcast all spent over 30% of their 2001 revenues on capital expenditures.

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The continuing need for new capital spending means that the cable companies cannot earn enough profits to justify their current stock prices. James Chanos of Kynikos Associates, the analyst who broke the story of the debt problems of Enron, figures that cable companies are worth no more than 15-30% of current valuations.

As I said, I am sure that this does not exhaust the list of accounting surprises that will scare investors over the next few years. If the market has not adequately discounted these coming shocks, they could lead even more investors to move part of their assets into gold, silver, and rare coins.

Silver and Silver Coins

Silver closed today at $4.67, down 36 cents (7.2%) from a month ago.

Although that might sound like a major drop, it is in line with typical volatility of silver. There were no fundamental new developments over the last four weeks other than perhaps reduced expectations for industrial demand this year because of the continuing recession.

As is normal when prices drop, the premiums on bullion silver coins and ingot rose. In the past few weeks, we have experienced a significant rise in demand and a decline in the volume of bullion sold to us. Even though premiums are up, I consider today's low prices to be a bonus buying opportunity.

U.S. **90% Silver Coin** (6.8%) is still the recommended form of silver because of its lower premium, divisibility, greater liquidity, and ready availability. U.S. **40% Silver Coin** (8.5%) and **1-100 Ounce Ingots** (12.8-10.1%) are also worth considering.

Demand for circulated common-date specimens of early Morgan Silver Dollars, minted from 1878-1904 has been slowly driving up prices. **Mint State Early Morgan Dollars** have not yet risen in price, but it could happen soon. We are offering mixed-date lots and rolls this month rather than wait for higher prices.

It has been difficult finding any groups of Better-Date Silver Dollars, U.S. Silver Commemoratives, and other numismatic silver coins. The best we could do this month is offer some **One-Of-A-Kind Bargains.** See our flyer for details.

The Month

Gold Range	$21.50	6.8%
Net Change	-0.25	
Silver Range	.51	10.1%
Net Change	-.36	
Gold/Silver Ratio	67.3	
Net change	+4.8	
Platinum Range	18.00	3.5%
Net Change	+15.00	
Platinum/Gold Ratio	1.70	

Date	Gold	Silver	Platinum
Jul 10	314.50	5.03	520.00
Jul 11	317.25	5.07	526.00
Jul 12	315.50	5.05	527.00
Jul 15	319.50	5.09	527.00
Jul 16	317.25	5.01	522.00
Jul 17	317.25	4.99	518.00
Jul 18	316.75	4.99	523.00
Jul 19	324.00	5.06	526.00
Jul 22	323.75	5.03	518.00
Jul 23	312.75	4.88	517.00
Jul 24	311.50	4.85	518.00
Jul 25	309.75	4.84	523.00
Jul 26	303.50	4.66	528.00
Jul 29	302.50	4.63	524.00
Jul 30	303.50	4.65	528.00
Jul 31	303.25	4.60	528.00
Aug 01	304.00	4.58	521.00
Aug 02	307.00	4.59	523.00
Aug 05	307.75	4.63	526.00
Aug 06	305.50	4.61	528.00
Aug 07	314.25	4.67	535.00

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.

Gold and Gold Coins

Gold finished today at $314.25, down just 25 cents (0.1%) from four weeks ago.

With the lowest spots prices in the last couple of months lately, demand has picked up noticeably. As a result, premiums on some issues continue to rise and availability is sometimes delayed.

The recent flurry of forecasts of lower interest rates goosed the price of gold today. The already low gold lease rates are prone to declining even further by the end of 2002. With potential income not even covering the element of risk, central banks are discouraged that much more from renewing existing leases. They certainly are less inclined to consider expanding lease activity to greater levels.

Although it never seems like a major jump in the gold price is imminent, I cannot rule it out in the current market.

By the way, if you want an idea of just how much paper gold trading is happening, just look at the various reports that JP Morgan Chase issues. As of March 31, 2002, JP Morgan Chase reported to the Office of the Comptroller of the Currency that it had assets of $45.2 billion in gold derivatives, an amount that was omitted from JP Morgan Chase's Form 10-Q for March 31,2002 filed with the Securities and Exchange Commission.

Only one government, the United States, has more physical gold holdings that the value of the JP Morgan Chase derivatives! These gold derivatives were only part of the $23.2 trillion of derivatives that JP Morgan Chase had, an amount greater than the annual budgets of all of the world's government combined!

The best buys are still the U.S. **American Arts Medallion** (2.8%), Austria **100 Corona** (2.9%), and South Africa **Krugerrand** (3.0%). The British **Sovereign** (6.1%) is a price leader among smaller gold coins.

Premiums on several circulated **Common-Date U.S. Gold Coins** have jumped this month as a result of tighter supplies with coins being shipped back to Europe.

We did not locate any groups of **Better-Date U.S. Gold Coins,** but we did manage to acquire a variety of one-of-a-kind bargains. Please see our brochure for further information.

Bargains in world gold coins pop up from time to time. Our offering of the **Gibraltar 1999 1/10 Oz Gold Cherub Angels** are a wonderful example of a coin that we can offer below the normal wholesale replacement cost.

1933 $20.00 Saint Gaudens Sells For $7.59 Million!

The American Numismatic Association convention in New York started with a bang last week when the only 1933 $20.00 Saint Gaudens that can legally be owned sold in auction for $7.59 million. This nearly doubled the former highest price for a rare coin of $4.14 million!

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