// Liberty's Outlook

Volume 9 Issue 8 Liberty Coin Service's Monthly Review of Precious Metals and Numismatics August 6, 2003

Silver Jumps To 3-Year High!

P.2 "In The Next 12 Months You're Going To See Up To $450 Gold . . . . It [The U.S. Dollar] Has To Depreciate Between 30% And 50% Against The Yen And Against A Basket Of Other Currencies"

P.2 Rare Coin Price Hikes Leaving Catalog Values In The Dust!

Two months ago, when the gold/silver price ratio was over 80/1, I alerted readers that this ratio was the highest in many years.

I stated, "At today's high ratio I think it is sensible to consider swapping your gold bullion for silver bullion."

Last month, I reviewed the 2002 data for silver supply, demand, and inventories in my annual discussion and concluded that, in the long-term, I expected much higher silver prices.

Those who took my advice to swap their gold for silver two months ago are now ahead by 12.3% because of surging silver prices. At silver's peak nine days ago, the gold/silver ratio had fallen as far as 70/1.

As I wrote the last two issues of *Liberty's Outlook*, I certainly did not expect silver to jump within a few weeks to its highest levels since February 23, 2000!

However, the jump in silver prices did not come as a surprise to me. As I have warned readers, the silver market is thin. It would take a lot less to spur a major jump in prices than would be needed to spark gold prices, for instance.

The surge started in mid-July. The US dollar had hit a short-term peak, during which gold and silver prices had softened. Even as the dollar rose, traders stated that it was a brief anomaly in the overall downward trend of the value of the dollar.

The dollar began to sink in the second half of July, prompting gold and silver to rise. Then, on July 23, the silver market was hit from multiple directions by computer trading activity.

First, an unusually large number of precious metals buy orders were posted to be executed at the opening of the commodities markets that day—as protection against the weakening dollar. A disproportionate number of these orders were to purchase silver, perhaps because of the favorable gold/silver ratio in recent months. When the commodity markets opened, this larger than normal buying activity caught the silver market short of product to fill the orders. Prices rose several cents, which triggered stop-loss buy orders that closed out some short-sale contracts, further adding to silver demand.

As demand increased, with little silver to buy, prices rose. Higher prices triggered even more stop-loss buy orders to close out more short sales. After closing at $4.78 the day before, silver kept climbing and finally settled at $5.05, a 27 cent (5.6%) gain for the day!

Market watchers (including me) were stunned by the move. The move was not sparked by any positive hard news. In fact, Eastman Kodak, the world's largest fabricator of industrial silver had just announced impending layoffs of several thousand more employees because of falling demand for, among other things, photographic papers and film that use silver! How could this major surge be sustained?

Once silver passed $5.00, a silver price not seen since July 22, 2002, several investment banks and brokerages automatically executed buy orders for themselves and their clients, further stoking demand. Silver closed at $5.10 on July 24, and finally peaked at a close of $5.19 on July 28.

By then, the automatic trading orders had been largely executed. A growing number of short-term traders started taking profits. Though there were several purchase orders executed as silver fell towards $5.00, silver finally dropped back under $5.00 to close at $4.94, partly on the basis of a single order from a well-connected trader to sell 1,000 contracts (5 million ounces) early in the day.

Market professionals are unsure what the near term holds for silver. About the worst expectation is that silver could sink all the way back to $4.80, which had been a major resistance point on the upside for silver over the past year.

On the other side, there is a lot of thought that this might be the beginning of silver's big move upward, a move expected sooner or later on the basis of a falling U.S. dollar, continuing huge silver supply deficits, and growing demand for silver for industrial fabrication as the economy recovers. If silver is poised to cruise up another 50 cents to a dollar in short order, as it has done several times over the past decade, traders want to have their positions established immediately.

Here at LCS, we sold an enormous

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amount of silver bullion products, especially U.S. 90% Silver Coin, in the first four and one-half months of 2003. As silver started its move upward in the second half of July, retail demand soared once again!

I have no crystal ball that tells me whether or not silver might drop a few percent from today's levels before it starts it big move upward or whether we are on the brink of a boom in the silver price. But I don't need to know to make huge profits in silver as a long-term investor.

Simply add to your silver bullion holdings at today's levels. Even if silver drops a few percent, that will be a minor difference compared to all the profits that silver could easily generate. After reviewing more than three decades of supply and demand factors, I personally think silver will someday break out over $10, might even reach $20, and reach a long-term equilibrium somewhere in the $12-16 range. If you buy now and hold for the long-term, it doesn't really matter to you whether silver gets there in the next few months or it takes a few years.

Just don't procrastinate and lose out altogether.

Astounding Predictions?

The predictions I quoted in the headlines of this month's newsletter are not fictional.

They were given in a speech two days ago in Kalgoorlie, Australia by Pierre Lassonde.

Where is Kalgoorlie, who is Pierre Lassonde, and why should anybody care what he thinks?

Kalgoorlie is a city in Western Australia, near the heart of the Australian gold mining industry. Lassonde's speech was given at this year's annual gold conference called Diggers & Dealers.

In his speech to this conference a year ago, Lassonde predicted that gold would reach $350 within the next 18 months, at a time when the price was $280. In fact, gold reached close to $400 earlier this year and rested almost exactly at $350 as he gave this year's speech.

This year Lassonde shortened his time frame and increased the anticipated amount by which the price of gold will rise. One of the reasons for this is that he considers the combination of the huge U.S. federal budget deficit and the soaring U.S. balance of trade deficit to be unsustainable. Something has to give.

The most likely result is what has happened to other countries in similar circumstances—the value of the dollar will drop sharply against other currencies, sparking sharply higher U.S. dollar gold prices.

By the way, Lassonde made another astounding prediction: He thinks that gold demand in China will grow so much than it will displace India as the world's largest gold consuming nation. He didn't give a time frame for that prediction. This prediction was influenced by China expanding its relatively new gold exchange on June 1 so that private individuals may now buy gold directly on the exchange.

Currently, Chinese demand is a fraction of India's demand. For China to overtake India as the world's largest consuming nation would almost certainly result in increasing worldwide demand by at least 10%! Nobody laughed when Lassonde made this prediction. In fact, several researchers at the conference agreed with his assessment!

Lassonde's comments a year ago were on target. That gives his current predictions a lot of credibility.

So does Lassonde's job. He is president of Newmont Mining Corp, the world's largest gold mining company.

Other News From Kalgoorlie

Lassonde's predictions were not the only noteworthy stories coming out of the Diggers & Dealers conference this week.

Gold Fields Mineral Services (GFMS) researcher Tim Spencer reported that worldwide gold mine production in the first half of 2003 had declined, despite significantly higher gold prices! For the year 2003, GFMS predicts that total mine output will be 2-3% less than in 2002.

The effect of this lower production on gold prices was magnified by the gold mines reducing their pre-sold gold contracts by 9.5 million ounces (more than 20% of the gold mined in the first half of 2003!) between January and June.

The falling value of the U.S. dollar was given as a major reason that gold production has declined. In the Western world in 2002, incremental cash costs to produce an ounce of gold came to about $180. Spencer reported that the 2003 Western world cash costs were now averaging about $211 per ounce.

For instance, because the U.S. dollar has fallen against the South African rand, the cash costs (as measured in U.S. dollars) at the South African mines have increased about 60% so far this year! In Australia, cash costs per ounce are up about 20% over year ago levels. In Canada, the increase is about 10%.

Spencer predicted that gold would average $360 for all of 2003, indicating that prices in the second half of the year will be noticeably higher than the first half.

While the conference was taking place, AngloGold announced that its merger with Ghana's Ashanti Goldfields had been approved by shareholders for both companies. The new entity, to be known as AngloGold Ashanti, will rival Newmont as the world's largest gold mining company.

AngloGold has a policy of pre-selling no more than 1.5 years of expected gold production. With the acquisition of heavily-hedged Ashanti, it will now have pre-sold contracts covering almost two years of expected production. Company officials have indicated that they will quickly close out about a quarter of their pre-sold gold contracts. This news, all by itself, makes it likely that gold prices will be stronger in the second half of 2003 than we have seen thus far.

Rare Coin Market Gets Even Stronger!

The U.S. rare coin market is getting warmer. Demand for some coins is so strong that they are trading at prices that leave the price guides in the dust.

Here's just a few examples.

The 1890-CC Morgan Silver Dollar in MS-63 Deep Mirror Proof-Like condition lists in *Trends*, one of the two most popular retail coin price guides, for $500. At the huge American Numismatic Association (ANA) convention in Baltimore last week, LCS Chief Numismatist Allan Beegle bought two nice specimens from a dealer for $610 apiece, figuring he made a good purchase. Well, he did—a dealer at the show bought one from him for $650 while another dealer paid $700 for the second!

Yesterday, a dealer friend from Florida called me with a want list of coins that he had been unable to locate at the ANA show. One was an 1881 Morgan Dollar in MS-64 quality. This coin lists in *Trends* at $100. This dealer has done LCS a number of favors and found deals for us over the years so I helped him out by charging him *only*

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$95 for the coin.

The 1909-S VDB Lincoln Cent is the key to the series. In Very Choice Mint State-64 Red & Brown quality it lists in *Trends* at $1,725. We bought one just before ANA at $1,700. Allan sold it to a dealer in Baltimore for $1,800.

The 1943-D Walking Liberty Half Dollar in Superb Gem Mint State-66 condition lists in *Trends* at $350. We bought one from a retail customer for $350, then Allan sold it to a dealer in Baltimore for $380.

Before the ANA, we purchased a Gem Mint State-65 1907 High Relief $20.00 St Gaudens for $24,000. We sold it to a dealer for $25,000 who commented that he had sold a comparable specimen to a retail customer a few months earlier for that exact same price he was now paying to buy another specimen.

A lot of better-date copper, copper-nickel, and silver coins are trading at higher prices this year. When the price of gold neared $400 early this year, a number of collector gold coins ran up in price. Although the gold price is down more than 10% from then, many of these higher prices have held because of continuing demand.

Also, seeming to come out of nowhere, there is strong collector demand for modern issue Gold and Silver Commemoratives, Eagles, and Proof coins not issued for circulation. Demand is so strong for the top quality certified specimens, especially those graded by the Professional Coin Grading Service (PCGS) and Numismatic Guaranty Corporation (NGC), that dealers serving this niche have charged prices that sometimes seem excessive. One dealer told me last week that he did not sell a single Large Cent or Bust Half Dollar at all in 2002, but he sold over $10 million of certified Gold, Silver, and Platinum Eagles!

When a rare coin market boom gets beyond the earliest stages, as I think we have now done, it becomes more difficult to identify coins that genuine bargains. The casual collector probably won't know that the 1890-CC Morgan Dollar in MS-63 Deep Mirror Proof-Like quality is still a good buy at 30-40% above *Trends* levels.

At this stage of the market cycle, experienced collectors and dealers are much more likely to stretch to acquire coins they want, even if the price guides indicate lower price levels. From experience, they know that genuinely rare coins are likely to keep appreciating for some time—meaning that if they don't buy today, it will cost more tomorrow.

In many instances, newer collectors will pass up coins simply because they are priced above their favorite price guide, because they do not have this same depth of experience with market cycles.

Investors and newer collectors can overcome this lack of experience at identifying good values during a rising market by conferring with seasoned collectors and by utilizing the services of a coin dealer who has extensive experience with market cycles. In markets such as we are in, it is impossible to always make the right decisions on value. But dealers who have gone through a few ups and downs and are willing to share their experience can help you improve your overall results tremendously.

For example, I prepared an analysis of the Morgan and Peace Silver Dollar series in early 1999, trying to identify the most undervalued coins. I recommended 67 different date and mintmarks in one or more grades between MS-63 to MS-65 quality, then indicated a maximum price to pay for each recommended coin at the time. By careful shopping, a collector or investor could acquire most of these coins for 5-10% below my maximum limits.

I just now checked to see how my recommendations have fared. The current cost to buy one of each of these recommended dollars is 14.2% higher than my maximum price four years ago. In other words, they would now cost 20-25% over realistic selling prices back then. I haven't gone through the entire calculation, but I am confident that these selected coins outperformed the complete Morgan and Peace Dollar series excluding the great rarities.

As I reviewed the list, I would still recommend most of these same coins in the same grades today. A few I would drop and a few others I would add. I think the major appreciation is ahead of us in the next few years. And I expect that my recommended coins will continue to outperform the entire Morgan and Peace Dollar series (excluding the great rarities that few can afford).

Here at LCS, where we have several people with up to four decades of collecting and dealing experience, we can offer our customers an advantage in helping to identify the better value coins in a market where prices in the catalogs become obsolete.

How Do You Know When It Is Time To Sell?

Many people who collect rare coins never intend to sell. They consider their holdings to be heirlooms to pass down to their descendants.

I certainly understand that sentiment, for I have some coins that I received from my father and grandfather that will be passed on down the line when the time comes.

But there can be times when prices are so high that it makes sense to cash out, possibly replacing at a later date for less.

When gold reached $800 and silver topped $50 in early 1980, I joined the throngs selling my gold and silver—assets which I had planned to hold forever for insurance. Today I could replace everything for a fraction of the price I received back then, not even counting the impact of inflation!

When PCGS and NGC first began operations in 1986 and 1987, supplies of certified coins were tight. Common-date Gem Mint State-65 Morgan Silver Dollars were trading wholesale at $600-800 apiece. We sold any that we got our hands on as quickly as possible, and recommended the same to our customers.

In August 1987, it appeared that the Chinese Gold Panda market was turning insane. We recommended that our customers liquidate. Our timing for that sell recommendation was right on the nose.

Well, what about now? Already we have had a few inquiries from customers wondering if it is time to sell.

Generally, the answer is not yet. I think that the rare coin boom that is now developing will probably be strongest and longest lasting of any rare coin boom ever!

The reason I think so is the tens of millions of people who have started collecting State Quarters for the fun of it. A significant percentage of these new collectors have already expanded their collecting interests to other areas, and millions more will do so in the coming years. As demand increases for coins in fixed supply, prices are bound to rise.

There is little reason to accept maybe a 10-30% appreciation today when the future may show price increases of 100-500%! It has happened before and will

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almost certainly come to pass again. This time around, I expect appreciation to be much more widespread than normal, with few collector coins that will stay stagnant or decline in price while others rise.

Again, experienced collectors and dealers can help you identify good times to sell. We look forward to covering this subject in a future issue of this newsletter. Stay tuned, but be patient.

Silver and Silver Coins

Silver closed today at $4.97, up 40 cents (8.8%) from last month.

With higher silver prices, we have seen some premium declines. U.S. **90% Silver Coin** (4.4%) has seen its premium fall by 2/3 from when it was at 13.2% in mid-March. It remains the low price leader that is our top recommendation for physical silver.

U.S. **40% Silver Coin** (7.8%) and **1-100 Ounce Ingots** (14.1-10.5%) premiums have dropped modestly from last month.

In the past month, we have seen some of the strongest appreciation in **Common-Date Morgan and Peace Silver Dollars** in at least a decade. MS-65 Morgan Dollars, for instance, rose more than 10% in July!

As best I can determine, I think wholesalers who provide these coins to telemarketers and cable television advertisers are anticipating more interest in these coins now that the price of silver is showing some life. They have become more aggressive at accumulating these coins. There have been times when I cringed at the thought of these coins being foisted on unknowing buyers at outrageous prices. Well, prices today will almost certainly be more reasonable, if still much higher than you could buy them from coin dealers like LCS.

From sources in Michigan, we acquired two interesting groups of silver dollars. From one dealer, we acquired our largest group of **Mint State Mexico 5 Peso Silver Cuauhtemocs** in nine years. From other dealers, we picked up a decent quantity of Mint State U.S. Silver Eisenhower 40% Silver Dollars. These coins have much lower mintages than most Morgan Silver Dollars, yet are available for a far lower price. See our flyers for details.

The Month

Gold Range	$22.50	6.4%
Net Change	-0.50	
Silver Range	.62	13.6%
Net Change	+.40	
Gold/Silver Ratio	70.6	
Net change	-6.5	
Platinum Range	29.00	4.3%
Net Change	+10.00	
Platinum/Gold Ratio	1.94	

Date	Gold	Silver	Platinum
Jul 01	351.50	4.57	671.00
Jul 02	351.25	4.64	670.00
Jul 03	351.00	4.68	675.00
Jul 04	closed		
Jul 07	348.00	4.72	672.00
Jul 08	344.00	4.73	665.00
Jul 09	343.50	4.81	667.00
Jul 10	344.25	4.80	675.00
Jul 11	344.75	4.80	675.00
Jul 14	347.75	4.79	682.00
Jul 15	342.00	4.65	688.00
Jul 16	343.00	4.66	674.00
Jul 17	344.25	4.68	684.00
Jul 18	347.00	4.72	682.00
Jul 21	351.00	4.74	682.00
Jul 22	350.50	4.78	685.00
Jul 23	358.50	5.05	689.00
Jul 24	362.00	5.10	694.00
Jul 25	362.50	5.07	691.00
Jul 28	364.50	5.19	693.00
Jul 29	361.50	5.16	694.00
Jul 30	356.00	5.06	680.00
Jul 31	354.50	5.11	681.00
Aug 01	346.25	5.09	675.00
Aug 04	349.50	5.02	680.00
Aug 05	349.50	4.94	677.00
Aug 06	351.00	4.97	681.00

London Silver Market Premium To New York Silver Market = 2¢

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

Gold and Gold Coins

Gold finished today at $351.50, down a mere 50 cents (0.1%) from five weeks ago.

Gold coin premiums were little changed, even as demand jumped sharply in the second half of July. The higher spot prices spurred enough liquidation to keep the market stable.

The best low-premium forms of gold are the U.S. **American Arts Medallion** (3.7%), Austria **100 Corona** (3.4%), and South Africa **Krugerrand** (3.6%). We do not recommend the higher premium coins such as the U.S. American Eagle (4.8%), Canada Maple Leaf (4.5%), and Australia Kangaroo (5.5%) as premiums will almost certainly fall to match those of the lower-premium coins with any major jump in spot prices.

Circulated Common-Date U.S. Gold Coins, especially $10s and $20s, have been selling well over the past month. Although it may not look like it at a quick glance, we are starting to see a significant pick up in demand for **Mint State Common-Date U.S. Gold Coins**. That portends even better news down the road for the **Better-Date U.S. Gold Coins.**

From a major collection purchased from the estate of a long-time customer, we can offer some exciting high-quality rare coins. See our enclosures titled **Exceptional Values In U.S. Rare Coins** and **Ultimate Grade Certified U.S. Coins** for specifics.

We Apologize For A Website Glitch

Those who consult our website, www.libertycoinservice.com, to view fresh price quotes pages have been stuck viewing July 14 prices for the past few weeks. Unfortunately, we will be unable to update anything for at least another couple of weeks.

The one computer on our premises that was used for website updates was fried by a power surge in mid-July. With several people off on vacation (including our computer consultant), and those still at work handling a doubling of sales volume spurred by higher bullion prices, arranging to check the disabled computer fell by the wayside.

The verdict came in two days ago that there was no hope of resuscitating the old computer. Since we have to acquire one new computer, we will be replacing our whole network as we would have done in the next six to twelve months anyhow.

So, we apologize for the temporary inability to update our website. When we again can do so, we will make sure that more than one computer is capable of handling the updates so that this problem will not reoccur.

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