Liberty's Outlook

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Gold And Silver Rise In A "Quiet" Market

Federal Reserve Consultant Warns U.S. Government Is Bankrupt!

Starting last November, gold and silver prices staged an impressive six month surge. Then prices dropped sharply in May and June.

Precious metals markets may have looked fairly calm in the past month in comparison to the recent roller-coaster ride. However, so-called "quiet" markets are usually anything but quiet.

In the past four weeks through yesterday, the price of gold at the U.S. close averaged 7.9% higher than the previous four weeks. The average silver price was 7.2% higher than the preceding four weeks. Even platinum was up an average of 4.4%.

There is a lot of fresh news that points to sharply higher gold and silver prices by late this year.

The news is so lopsided that I would think that prices might take off soon. The obstacles that may delay the boom are the politicians in Washington who are doing everything they can to hold the lid on the economy until after the November elections.

There is only room here to cover some highlights:

Federal Reserve Consultant Says "The US Government Is . . . Bankrupt." In a paper published for the Federal Reserve Bank of St. Louis that was released recently, Boston University professor Laurence Kotlikoff, said the U.S. government will be unable to meet its financial commitments, primarily to current and future generations of Americans.

After adding the actuarial liabilities for Social Security, Medicare, Medicaid and other pension and healthcare programs that are not included in the government's "official" debt total, the U.S. government is on the hook for $65.9 trillion. That figure is more than five times the U.S. Gross Domestic Product, or almost double the value of all public and private assets in the U.S!

Kotlikoff said, "The United States has experienced high rates of inflation in the past and appears to be running the same type of fiscal policies that engendered hyperinflations in 20 countries over the past century."

To better understand the magnitude of the debt, the consultant described what steps would need to be taken to cover this debt:

"One solution is an immediate and permanent doubling of personal and corporate income taxes. Another is an immediate and permanent two-thirds cut in Social Security and Medicare benefits. A third alternative, were it feasible, would be to immediately and permanently cut all federal discretionary spending by 143 percent." (The 143% is not a misprint!)

Syrian Central Bank Dumps Dollars And Will Cut Currency's Peg To U.S. Dollar. Shortly after hostilities broke out in Lebanon and Israel, Syria's central bank governor, Adib Mayaleh, stated in an interview that over 50% of Syria's $4 billion in central bank reserves had already been converted into the euro. In addition, the Syrian currency will cease to be pegged to the value of the U.S. dollar by the end of 2006.

This announcement follows similar statements in 2006 by central bankers from Kuwait, Qatar, the United Arab Emirates, Russia, Sweden, and Finland that they are diversifying their reserves away from the U.S. dollar.

Royal Canadian Mint May Sponsor An Exchange Traded Fund For Precious Metals. In a tender document released two weeks ago, the Royal Canadian Mint (RCM) said it is trying to develop "a new type of investment" that would be listed on the Toronto Stock Exchange and could be owned by registered retirement savings plans. The form of investment would be similar, if not identical, to existing gold and silver exchange traded funds where the shares represent quantities of physical metal held by the fund.

The program is one way that the RCM would seek to meet soaring demand for its gold and silver. According to David Madge, executive director of bullion and refining service at the RCM, "Silver Maple Leaf coin sales right now have gone through the roof. They are just flying out faster than we can make them, which is a good thing."

Former Malaysian Prime Minister Urges U.S. Dollar Boycott. Dr. Mahathir Mohamad, the long-time former prime minister of Malaysia, last Saturday urged countries to cease using the U.S. dollar for international trade.

He told reporters, "Switching out of the U.S. dollar to using other currencies such as the euro and yen or gold will somewhat weaken the United States and put pressure on it."

His proposal was prompted by the expansion of fighting in the Middle East, which he blamed on the U.S. Mahathir also acknowledged that such a boycott would be technically difficult to implement and that many countries would not participate out of fear of offending the United States.

Huge COMEX Silver Short Positions Might Affect Plans For NYMEX

Inside this issue:

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Initial Public Offering. As I discussed in last month's newsletter, the small-scale short traders in the COMEX silver market have been mostly closing out these positions of late. However, the "four or fewer" major holders of short silver positions have been unable to make any significant reduction of their 175 million ounce short position, which now accounts for 86% of all silver short positions on the COMEX.

When the Barclay Bank silver exchange traded fund began operations in late April, the COMEX had about 125 million ounces of physical silver registered for delivery on the exchange. As of two days ago, these inventories had dropped to about 99 million ounces.

This concentration of massive short positions is larger, on a percentage basis, than the positions taken by the Hunt Brothers in early 1980. It is larger than the copper short position over which the Commodities Futures Trading Corporation (CFTC) took action. It is almost as large as when BP purchased 88% of the propane market, where the CFTC also took action.

This huge silver short position has hung over the COMEX silver market for several years, despite the efforts of many analysts calling for enforcement action to correct this blatant market manipulation. The COMEX and government regulators have not only resisted taking corrective action, it has even changed rules to make it easier for the short positions to continue to operate.

The NYMEX Holdings, Inc., the parent company that owns COMEX, has filed a preliminary prospectus for an initial public offering (IPO) of the company's stock. This prospectus's discussion of risk factors does not disclose the potential multi-billion dollar default that could hit the silver market.

Since the COMEX and CFTC have not done anything about the huge silver shorts, silver analysts such as Ted Butler have taken in on themselves to notify the six brokers who are underwriting the IPO that omission of this disclosure in the prospectus could leave the brokers legally liable if a default does occur in the silver market.

The letters just went out two weeks ago, so it will be some time before we see if huge silver short position on the COMEX throws a monkey wrench into plans for the NYMEX IPO.

Deliveries Of Physical Silver Are Slowing Down. There are several areas where the delivery of physical silver has slowed significantly, suggesting that supplies are getting tighter.

Barclay Bank's silver ETF is experiencing delays in receiving physical silver, which in three months has absorbed over 91 million ounces of silver.

Movements of silver into and out of COMEX warehouses are delayed.

There are new restrictions in dealer trading of spot market silver, the contracts that could be redeemed for current month delivery of physical silver.

The Central Fund of Canada, which is listed on the AMEX and operates a fund holding gold and silver much like an exchange traded fund, recently purchased 3 million ounces of silver where they expect it will take months to get delivery.

U.S. Dollar Fails To Gain Strength. The value of the U.S. dollar was getting clobbered earlier this year, until gold and silver took their sharp drops. The dollar then recovered just the smallest amount—then has been unable to move any higher! The inability to break above the overall downward trend is a signal to technical traders that the dollar should be falling further in the near term.

Federal Reserve Chair Ben S. Bernanke Speaks Out Of Both Sides Of His Mouth. That a bureaucrat tries to take opposite positions really isn't news, but to try to do it simultaneously takes skill . . . or something. Three weeks ago, Federal Reserve Chair Bernanke gave his periodic economic report to Congress. Up until he actually appeared before Congress, Bernanke was saying that combating rising inflation was the number one priority of the Federal Reserve, and to expect near term interest rate hikes. The string of continuous interest rate hikes over the past two years have hurt the real estate market and cut into corporate profits.

But, when it was time to report to Congress, Bernanke stated that inflation was moderating and implied that interest rate hikes may be finished.. Between his testimony to Congress and his remarks immediately before that, there seemed to be something to please everyone.

Well, Bernanke can't have it both ways. If interest rates continue to climb, the American economy will be hurt, and the value of the U.S. dollar will eventually fall. If interest rates stay stable or even decline from current levels, then the Fed will have given up fighting inflation, which has the effect of lowering the value of the U.S. dollar.

I am convinced that there is no easy way out. Whichever direction the fed takes, one ultimate effect will be the decline in the value of the U.S. dollar.

There are many so-called financial instruments that are touted as protecting investors from the risk of inflation or deflation. Unfortunately, they usually prove to be horrible if the economy moves in the opposite direction. Physical precious metals, not purchased on margin, represent perhaps the ideal form of "insurance" against the risks of inflation or deflation.

Investment Guru Harry Schultz Suspects Manipulation Of U.S. Stock Indices And Dollar Value. As reported on CBSMarketWatch.com two days ago, long-time legendary investment guru Harry Schultz is suspicious how gold, oil, the U.S. dollar, and most stock market indices are looking to rise at the same time, even though some of them normally act opposite to one or more of the others. He observes that it would be easy to manipulate a stock index simply by affecting the value of three or four stocks making up that index. He also said, "The U.S. dollar index may be also subject to manipulation."

He went on to say, "Some governments are getting desperate re some market action in the face of elections. Painting the tape is an old game. So, monitor all these key market charts to see if something breaks rank and reveals a more 'logical' picture."

Schultz went on to reveal that he is almost completely out of the stock market, except for gold stocks. His current recommendation for gold stocks and bullion is 33-40%. He gives the United States a 50% chance of a recession in 2007 if the Federal Reserve raises interest rates to 6% (it is currently 5.25%).

Hostilities In Israel and Lebanon. While some might put this news first right now, I think the political uncertainty caused by this fighting and the risk that it may expand to directly include other nations is more just part of the long-term political uncertainty from somewhere. Last month it was North Korea in the news. Next month it could be Iran on the front burner. It is just about guaranteed that there will almost always be some parts of the world where violence flares up, creating political and economic uncertainty.

The changing value of currencies and precious metals can be considered as a report card on the affect of such trou-

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bles. Hard assets like gold, silver, and rare coins provide the ultimate flight to safety because they are assets that are not simultaneously someone else's liability.

Large Gold Mining Companies Become More Aggressive At Purchasing Smaller Companies. If you want indications of where the professionals who operate gold and silver mining companies think that prices are headed, just look at their recent surge in buying out smaller competitors. If prices rise, they will profit handsomely, whereas if gold or silver prices decline, such acquisitions would become a drain to the new owners.

Putting The Pieces Together

From putting these bits of news together with the long-term supply shortages for gold and silver, I am highly confident that both prices will soar in the not too distant future.

I think we could easily see $800 gold by year end and it has a significant prospect of reaching $2,000 by the end of 2007.

Silver is a much more volatile market. If there is any blowup of the huge shortage of silver on the COMEX, I expect we could easily see $30 silver within weeks. Even if this doesn't break soon, we could still see $15-20 silver this year and top $50 by the end of 2007.

(Note: Even though these forecasts might seem outrageous at first glance, I am trying to be conservative. I am also far below some of the projections others have made.)

This boom in the precious metals markets will not go in a straight line. I expect that there will continue to be periodic efforts to manipulate prices downward. Government bureaucrats will change the rules for the benefit of their friends and political supporters and against the interests of the rest of us. Exchanges will change margin requirements, daily trading limits, and so forth. Governments, central banks, and other parties may lease metal (which is still inexpensive to do) to scare down prices.

Almost any way that you can think of how a market can be distorted to hold down gold and silver prices is likely to be tried, except one. I do not expect the U.S. government to attempt to call in gold or silver, for two important reasons.

First, because it was largely illegal for Americans to own gold from 1933 to 1974, the amount of gold owned by Americans is almost insignificant. A few years ago, I calculated that such an attempt to call in gold would yield only about 80 million ounces. Even at $1,000 gold, that would amount to only $80 billion dollars. There are other areas where the U.S. government could bring in far more assets For instance, a requirement that all retirement accounts must allocate 15% of their value to purchasing government bonds would easily yield $1-2 trillion!

Second, calling in gold would pretty much be an admission by the U.S. government that the U.S. dollar was worthless. Non-U.S. holders of the trillions of dollars of U.S. dollar-denominated debt outside of the country would instantly repatriate as much as they could and would be unwilling to accept the dollar for payment any more. Thus, any attempt by the U.S. government to call in gold would actually backfire.

But, short of calling in gold or silver, owners of gold, silver, and rare coins need to expect every other dirty trick that can be imagined.

The Case For Holding Physical Hard Assets

Many people prefer to invest in gold and silver through owning shares of stock of mining companies or in the newer exchange traded funds where shares represent a specific quantity of gold or silver.

There are several reasons why this alternative is attractive. Some mining companies pay dividends. There is no need to be concerned about secure storage of perhaps a sizeable mass. Paper assets cannot be burglarized as easily as physical goods. Then there is the relative ease of purchase and sale.

For some people, those reasons are compelling, at least for some of their holdings. However, there are several disadvantages of paper assets that physical gold and silver overcome.

The value of a mining company stock roughly anticipates an income stream over the long term. Calamities may hurt a company having nothing to do with the value of precious metals. Such calamities would not affect holders of physical goods.

The value of mining companies, because it assumes an income stream over the long term, means that short-term price spikes do not have that large of an effect on the long term profitability of a company. In the early 1980s I reviewed the performance of gold bullion versus gold mining companies in the 1979-80 boom. On average, my analysis showed that the stocks only appreciated half as much as the physical metals.

Companies can go bankrupt, making shares little or nothing, which cannot happen to gold or silver you hold in your own hands.

Even a certificate of gold or silver stored somewhere else may not be available in tumultuous times. A Perth Mint certificate of gold held in its vault in Australia may not be readily accessible if you need to get your hands on it.

Physical hard assets in your possession are more private. There are scenarios where owning hard assets that no one else knows you own just might come in very handy.

Over the years, a number of coin dealers have encouraged customers to store their holdings with the dealer "at no charge". Unfortunately, many companies that have done this have failed, leaving the investors empty-handed.

Hard assets stored in safe deposit boxes may not be available on short notice, and may be subject to government scrutiny. When the major power blackout hit the northeast US a few years ago, banks were closed for several days to over a week in some areas.

The ultimate advantage of physical hard assets in your possession is that they are under your control and not subject the cooperation of any other company or person. They are not someone else's liability.

Even if you allocate some of your hard asset holdings to stocks or certificates, and store some hard assets in a safe deposit box, I think it is prudent to have a significant amount of physical precious metals and rare coins right in your own dwelling.

Gold and Gold Coins

Gold closed today at $651.50, up $24.25 (3.9%) from last month.

While the spike of gold up to a close of $666.50 on July 14 may be due in large part to the fighting in Lebanon and Israel, it didn't last long. With gold rising above its recent range, a number of short term traders took profits and there is the possibility of the market manipulation going on. The gold price fell about 8% in 10 days.

With the weak hands out of the market, eager buyers have been pushing up prices ever since.

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The introduction of the U.S. 1 Oz Gold **Buffalo** (5.6%) has taken market share from other current bullion coin issues such as the U.S. **American Eagle** (4.8%) and Canada **Maple Leaf** (4.0%). The premiums on these two coins have fallen in the past few weeks as more coins have been liquidated than have been sought by new buyers. I would not be surprised to see premiums fall further on these latter two coins.

Still, the low premium issues such as the Austria **100 Corona** (2.8%), U.S. **American Arts Medallion** (2.9%), South Africa **Krugerrand** (2.8%), and Mexico **50 Peso** (3.0%) are getting lots of attention. For instance, we have sold more Krugerrands in the past month than we have sold in any month in years!

Circulated and low-grade Mint State Common-Date U.S. Gold coins have seen premiums drop in the past month, partly due to the relatively large number of coins coming in from Europe causing cash flow problems with some wholesalers. Even the **Mint State-60+ $20.00 Liberties** are now available at only a 14.2% premium to its gold value, and circulated $5.00, $10.00, and $20.00 Liberties are at or near their lowest premiums in the past two decades. I do not expect premiums to remain this low for too many more months.

I would recommend Common-Date U.S. Gold Coins more strongly except that many of the **Better-Date U.S. Gold Coins** are even more appealing—if you can find them. We were unable to locate any groups in this past month but do include a few lovely pieces in our **Beautiful Bargains** offering.

Interesting lots of **World Gold Coins** seem to be equally hard to find. We did have the good fortune to snap up a West Coast lot of **Choice Mint State-63+ 1889 Sweden 20 Kronor** at a reasonable price. See our flyer for details.

Silver and Silver Coins

Silver settled today at 12.20, a jump of 87 cents (7.7%) from four weeks ago, and the highest close for silver since May 31.

The two indicators I check to be alert for near term sharp increases in the price of silver. The premium of the London silver market price above the New York Comex is still high enough that buyers can profitably take delivery of a Comex contract, pay to have the bar refined to London's higher .9999 purity requirements, then ship it over to England. That large of a premium indicates a shortage of silver supplies.

However, the premium on U.S. **90% Silver Coin** (1.5%) is low enough that the coins trade wholesale far enough below silver value that refiners can profitably melt them down, increasing silver supplies. Until the retail premium rises to at least 2%, supplies won't get too tight and spur soaring prices.

However, the news notes about slow delivery of physical silver all indicate that we are heading toward a supply squeeze in the not too distant future, even if the huge silver short position on the Comex is left as is. If I had to choose between adding to my gold or silver right now, I would go for silver.

The best form of physical silver to purchase is 90% Coin. While it is slightly more expensive per ounce than U.S. **40% Silver Coin** (1.0%), you have a lot less bulk to handle, lower postage costs to ship, and a smaller spread between buy and sell prices. You might consider purchasing **100, 10, and 1 Oz Silver Ingots** (4.9-5.7%), but they cost much more than 90% Coin. Plus, if you purchase the 100 Ounce Ingot to get the lowest cost, you have to consider the problem with divisibility. At $30.00 silver, a 100 Ounce Ingot would contain $3,000 of silver, which can only be purchased or sold as an intact unit. If you own $140 face value of 90% Dimes, you have about $3,003 of intrinsic value on the lot, with each dime representing $2.145 of silver value. You can easily count out smaller quantities of dimes to trade or sell as needed rather than have to go all or nothing with the large ingot.

In the past month, we have acquired of small group of **Superb Gem Mint State-66 1946-S Walking Liberty Half Dollars** and a nice variety of **Better Date Morgan Silver Dollars and other coins**. Please see our enclosed offer and our list on the back of the Quotes Page.

LCS Staffer Earns Credential

LCS staffer Janet Gates has tremendously upgraded the company's estate jewelry displays over the past two years. As a result, LCS is now selling more jewelry to retail customers than at any time in our 35 years in business!

That accomplishment is even more impressive when you consider that a number of Michigan jewelry stores have closed in the past year because of falling volume.

Janet recently completed the Gemological Institute of America program and has been certified as an Accredited Jewelry Professional (AJP). Time permitting, she may continue to seek the Graduate Gemologist credential.

Congratulations Janet.

Just For Fun

Go to www.fnarena.com, click on the "Read Our Disclaimer" menu item, then the "Commodities" menu item, then click on the August 1 story "Did The US Treasury Manipulate The Gold Price Down?"

The Month

Gold Range	53.75	8.6%
Net Change	+24.25	
Silver Range	1.75	15.4%
Net Change	+.87	
Gold/Silver Ratio	53.4	
Net change	-2.0	
Platinum Range	58.00	4.7%
Net Change	+7.00	
Platinum/Gold Ratio	1.91	

Date	Gold	Silver	Platinum
Jul 05	627.25	11.33	1,236.00
Jul 06	634.00	11.50	1,230.00
Jul 07	632.75	11.33	1,224.00
Jul 10	624.00	11.03	1,211.00
Jul 11	641.25	11.47	1,234.00
Jul 12	649.50	11.47	1,247.00
Jul 13	653.00	11.40	1,242.00
Jul 14	666.50	11.45	1,246.00
Jul 17	650.50	11.01	1,228.00
Jul 18	628.50	10.45	1,213.00
Jul 19	641.50	11.05	1,217.00
Jul 20	631.75	11.00	1,206.00
Jul 21	619.50	10.79	1,200.00
Jul 24	612.75	10.87	1,189.00
Jul 25	617.50	10.90	1,209.00
Jul 26	621.50	11.03	1,214.00
Jul 27	632.50	11.34	1,221.00
Jul 28	634.50	11.32	1,212.00
Jul 31	634.25	11.33	1,220.00
Aug 01	646.50	11.70	1,237.00
Aug 02	651.50	12.20	1,243.00

London Silver Market Premium To New York Silver Market = 15¢

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

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