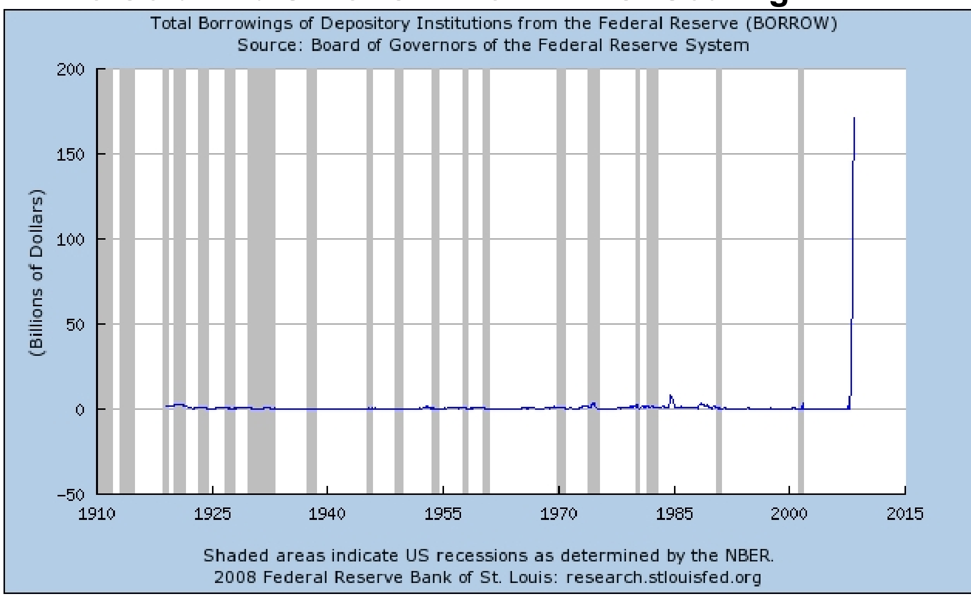
Liberty's Outlook

Volume 14 Issue 8 Liberty Coin Service's Monthly Review of Precious Metals and Numismatics August 6, 2008

If All Americans Saw This Chart, The Banking System Would Collapse!

—Widespread Run On US Banks May Already Be Under Way
—Is The US Government Near Its Final Legs To Save The US Dollar?
—Friday Failures Of US Banks Becoming A Weekly Event, Who Will Fall Next?
—New Extreme Financial And Accounting Gimmicks Used To Hide Problems
—Are Gold And Silver On The Brink Of Soaring?



2008 Year To Date Results

Through August 5, 2008

Precious Metals	
Silver	+11.8%
Gold	+5.2%
Platinum	+4.5%
Palladium	-4.6%
Numismatics	
MS-65 Morgan Dollar	+17.2%
MS-63 $20.00 Liberty	+10.0%
MS-63 $20.00 St Gaudens	+4.3%
US Dollar vs Foreign Currencies	
India Rupee	+6.9%
Canada Dollar	+6.2%
Great Britain Pound	+2.1%
Japan Yen	-3.6%
Euro	-4.8%
China Yuan	-6.0%
Switzerland Franc	-6.4%
Brazil Real	-11.0%
U.S. Dollar Index 73.938	-3.59%
US and World Stock Market Indices	
Russell 2000	-5.9%
NASDAQ	-11.4%
Dow Jones Ind Average	-12.4%
S&P 500	-12.5%
Tokyo Nikkei 225	-15.6%
London FT 100	-15.6%
Frankfurt Xetra DAX	-19.2%
Intrinsic Metal Value Of U.S. Coins	
Lincoln Cent 1959-1982	2.33¢
Lincoln Cent 1982-date	0.48¢
Jefferson Nickel-non-silver	5.11¢
Roosevelt Dime 1965-date	2.32¢
Wash Quarter 1965-date	5.79¢
Kenn Half Doll 1971-date	11.59¢

It gives me no pleasure to reproduce the above chart produced last month by the Federal Reserve Bank of St Louis. It graphs the total borrowings made by banks from the Federal Reserve in the Fed's capacity as a lender of last resort.

The chart shows data from 1919, not long after the Federal Reserve Bank was established, to June 1, 2008.

Until a year ago, total borrowings never exceeded $10 billion at any one time. That has changed with the hundreds of billions of dollars of losses sustained by the financial industry as a result of the sub-prime mortgage disaster.

Here is how total bank borrowings from the Federal Reserve have grown in recent months:

February 1, 2008	$60 billion
March 1, 2008	$94 billion
April 1, 2008	$135 billion
May 1, 2008	$155 billion
June 1, 2008	$171 billion

In effect, banks are being forced to borrow funds to avoid having to liquidate assets that may be worth just a fraction of the value listed on the bank's financial statements.

One inference you can make from this chart is that banks don't have enough assets to cash out all of their depositors, and the federal government does not have enough backup resources to cover everyone. If this information were widely known, there could be instant panic as the public tried to pull funds out of their bank accounts.

As most readers have doubtless heard, the Federal Deposit Insurance Corporation (FDIC) shut down and assumed control of IndyMac Bank of Pasadena, California on Friday, July 11. This is the second largest US bank failure ever. Bank depositors will lose about $1 billion above the amounts covered by FDIC insurance.

Since then, three more banks have been shut down, all on Fridays, bringing the cumulate total of 2008 US bank failures to eight

Inside this issue:

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through last weekend. This contrasts to 2005 and 2006 when no banks failed, and 2007 when only three banks failed.

Over the past several weeks, LCS has enjoyed a surge of business from customers buying gold and silver because they are afraid that funds in their bank accounts may suddenly become unavailable and may be completely lost. This phenomenon was repeated across the country.

Most of these purchases were made by first-time customers. About half of them specifically mentioned that they were paying with funds that were being removed from bank accounts out of fear of possible banking system problems.

On top of outright bank failures, investors in the federally chartered private mortgage companies called Fannie Mae and Freddie Mac were dumping their shares, forcing down prices. These two companies finance about half of the residential real estate mortgages in the US, and have not booked anywhere close to the amount of bad debts that they are expected to sustain.

With a possible meltdown of the entire US financial system looming, the prices of gold and silver rose to multi-month highs. By July 15, gold was threatening to top $1,000 again and silver was trying to reach $20 once more.

Over the past decade, the Federal Reserve and US Treasury have exhausted a lot of financial clout and ammunition trying to suppress gold and silver prices. They still have enough assets plus the ability to jawbone and to change rules to try to maintain the pretense that damage to the US economy has been overcome. So that is what has been happening for the past few weeks.

Federal Reserve Board Chair Ben Bernanke, Treasury Secretary Henry Paulson, and President Bush have been extremely busy making speeches to soothe investors and bank account holders. Congress enacted emergency legislation to bail out Fannie Mae and Freddie Mac using taxpayer money (with some analysts projecting that the tab could run as high as $400 billion!). In addition, there has been a lot going on behind-the scenes to support the stock markets and hold down gold and silver prices.

In effect, the US government is currently undertaking a massive effort to shore up the financial system, supporting banks and stocks and pushing down gold, silver, and other commodity prices.

Government officials are probably hoping that this effort can push back the day of reckoning until after the election, until next year, or until after they retire. I don't think any of them expect that this effort will prevent a major financial crisis from ever happening.

The Federal Reserve Open Market Committee announced yesterday that they would not be raising interest rates, which was a pretext to arrange for further support to the dollar and stock markets and to knock down precious metals prices.

As a result of this major push, gold and silver prices today are more than 10% lower than they were just three weeks ago. Platinum and palladium (the prospects of which I have not been enthusiastic for years) have fallen by an even greater amount.

In the public's eye, perhaps the most noticeable change is that the price of gasoline has retreated from recent record highs. Many other commodities are down from their record levels as well.

What Now?

Is this a sign that the boom in precious metals is over? Are the losses in the US mortgage markets mostly digested? Will the US dollar regain and sustain some of its lost value?

No. No. And no.

I think there is a very real possibility that the current market manipulation activities may be the last time that the US government can do so on such a scale without the general public catching on.

In the future, I think the government either will have to take such brazen measures to manipulate markets that the public will quickly become aware of the subterfuge or that the efforts will only be small rear-guard actions to slightly delay the eventual downfall of the dollar and the soaring of gold and silver prices.

This government manipulation will only be successful while the general public does not realize what is happening. Once a high percentage of the populace realizes that their dollars are quickly losing value, they will become aggressive at getting rid of them, just like the Vietnamese are now doing with their inflation-ravaged currency.

Here are some of the factors behind my thinking.

Foreign support of US dollar is drying up. In the past six months, sovereign wealth funds have invested tens of billions of dollars to shore up the capital positions of US banks and brokerages. So far, they have already lost 30-50% of the value of their investments. The US government depends on Asian, Russian, and Middle Eastern investors to fund most of the $700 billion annual US trade deficit.

The tide has been turning over the past few years, where foreigners are less willing to accept further US dollar-denominated debt. This rejection is accelerating recently. For instance, Kuwaiti authorities announced in mid-July that their sovereign wealth fund would no longer buy Fannie Mae or Freddie Mac debt, reallocating those investments to Asian countries.

Merrill Lynch's head international economist, Alex Patellis, recently said, "Foreigners will not be willing to supply the capital." Merrill Lynch issued a report expecting a foreign financing crisis within months.

Banks "off the books" mortgage losses are coming home to roost. In mid-July, National Australia Bank, that nation's largest bank as measured by number of customers and stock market value, became the first bank in the world to recognize any losses from mortgages parked in "special investment vehicles" (SIVs), an Enron-style subterfuge used by banks to keep from showing these assets on their own books.

The really bad news is that the National Australia Bank originally claimed that they had no exposure to losses from these "off the books" mortgages. Now they have written off 90% of the value of their $1.2 billion in SIVs.

The best estimate I have seen is that there is about $1 trillion of such mortgage debt hidden in SIVs sponsored by banks. So far, recognized sub-prime mortgage losses have totaled over $450 billion worldwide. Until now banks had avoided recognizing any losses on SIVs on the pretext that there was no established market by which to value them. With National Australia Bank booking more than $1 billion in losses on their SIVs, there is now a precedent by which to establish value. Even if other banks don't have to absorb a 90% loss on their SIVs, they are still facing hundreds of billions of losses that may have to be recorded in the coming months.

Banks reporting huge losses and using accounting gimmicks to postpone losses. So many banks reported massive losses for the most recent reporting period that I won't even try to detail them. Instead, I want to focus on two examples of banks that supposedly had better than expected results and the creative accounting it took for them to achieve those results.

One supposed highlight in 2nd quarter 2008 bank reports was from Wells Fargo & Company, one of America's largest banks. In order to report results as good as they did, however, they made two significant accounting changes. First, they stopped writing off home equity loans when they become 120 days overdue. Now they don't write them off until they are 180 days overdue, a change which supposedly improved 2nd quarter 2008 results by more than $250 million. The second change they made was to reclassify some real estate debt as other kinds of debt which do not have to have as high a provision for future bad debts.

JP Morgan Chase, another of America's largest banks, was able to report better-than-expected 2nd quarter 2008 results because they only booked $450 million in losses for the takeover of Bear Stearns. Total losses

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from Bear Stearns are expected to exceed $20 billion, though there is a possibility that the takeover arrangement established by the US government may saddle taxpayers with most of these losses. Until further information is publicly released, it just isn't possible to know if JP Morgan Chase is still on the hook for a lot more Bear Stearns losses.

Bank "truth in financial reporting requirements" delayed one year. Last Wednesday, the Financial Accounting Standards Board (FASB) postponed by one year a requirement for banks to add back onto their financial statements a lot of these "off the books" entities such as SIVs for which the banks are financially responsible. The FASB bowed to extreme pressure from the US government and the financial community that the public could not handle learning the truth about the state of the US banking system (the actual verbiage used was much more flowery and difficult to understand, but this is what is really meant).

Banks being sued for selling auction rate securities (ARSs). The states of New York and Massachusetts will imminently or have already sued Citigroup, UBS, and Merrill Lynch for their sales of ARSs. These long term securities have their interest rates reset by periodic auctions. They were marketed as safe, liquid, cash-equivalent securities. After several auctions failed in February, this $330 billion market froze. Debtors such as municipalities, hospitals, museums, and student loan providers are having to pay far higher interest rates. Owners of ARSs simply are unable to cash them out.

P.S. Late news flash. Apparently Merrill Lynch is trying to negotiate a settlement with all parties where it will buy back $8 billion of ARSs from investors at 100% of face value plus pay a fine of $100 million. If finalized, this could set the framework for settlements by other firms that marketed ARSs—causing huge hits to their capital reserves.

Lawsuit blizzards looming for banks. If banks that issued mortgages neglected to satisfy 100% of the disclosure requirements of the 1968 Truth In Lending Act, then the borrower can successfully sue the bank to cancel the loan. The borrower does not have to prove that they were defrauded, misled, or suffered any damages, only that the disclosures were defective. A small survey by one California bankruptcy attorney found disclosure violations in half the documents reviewed.

In addition, look for a huge number of lawsuits filed by investors in mortgage-backed securities sold by banks. Many such contracts contain clauses where the banks must take back loans that default unusually quickly or have any indications of mistakes of fraud. Such suits already filed by California, Massachusetts, and the city of Cleveland are just the appetizer of what is coming soon.

Declining gold supplies. So far, six of the ten largest publicly-held gold mining companies have reported their 2nd quarter 2008 gold production. Combined, their output has fallen 12.5% from the 2nd quarter 2007.

I don't even have space to discuss the distortions in the reported inflation, unemployment, and gross domestic product statistics. Nor does this cover issues such as the federal budget deficit, the trade deficit, falling home values, the wars in Iraq and Afghanistan, and the risk of war with Iran.

I think what I have listed is enough for you to understand why **I think a major financial crisis is almost certainly to hit before the end of 2008.**

I'm not the only one anticipating much higher precious metals prices. The action in the December 2008 gold options contracts is centering around the $1,200 level, with significant activity all the way up to the $1,500 level. Such contracts are generally purchased by the more knowledgeable investors with deeper pockets. They are making bets that, before the contracts expire in four months, the price of gold will reach $1,200 or whatever level is specified in the contract they bought.

There is also an indication that the huge brokerage firm Goldman Sachs expects much higher gold prices by year end. Analyst Adrian Douglas has been tracking the company's gold positions on the TOCOM (Tokyo Commodities Exchange) because this exchange reports such detailed information about individual positions. Since the start of 2006, Goldman Sachs has generally been closing out their TOCOM short contracts. Short contracts are ones where investors lose money if the value of the underlying commodity rises. At their average rate of closing out their short contracts for the past 32 months, Goldman Sachs will have finished closing all gold short contracts on the TOCOM in the next three months.

Whether or not you realize it or not, gold and (to a lesser extent) silver are once again forms of money.

How so?

Governments around the world make political and economic decisions partly on the basis of how they will affect gold and silver prices. The US government is specifically trying to keep the value of the dollar up in relation to gold, though with less success as the years pass. If gold and silver were not money, the impact of government actions on their value would not even be under consideration when making decisions.

Actions To Take—Now

My advice is the same as it has been for several months. I believe it would be prudent to hold up to 25% of your net worth in gold and silver (and possibly a small portion in rare coins).

At the same time, check your bank accounts. FDIC insurance goes up to $100,000 per person ($200,000 for a joint account) per bank. If you have more than that in a bank, you may want to move the excess to another institution. You should also look at your accounts closely, as many products offered by banks are considered investments not covered by FDIC insurance at all! If you have uninsured accounts at a bank, it is better to evaluate your position now than possibly waiting until after the bank fails.

Don't think that it cannot happen to you. At least three banks operating in Michigan are on the lists of troubled banks maintained by FDIC or the Office of Thrift Supervision, or have already received a cease and desist order from the FDIC to obtain immediate additional capital.

Baltimore ANA Show Report

Last week, the American Numismatic Association (ANA) held its annual World's Fair of Money show in Baltimore. This is one of the largest shows in the country, attended by over a thousand dealers from around the world. LCS's Pat Heller and Allan Beegle "worked the floor" there.

As the show started Tuesday, the prices of gold and silver were falling. Several dealers with gold inventories were hesitant to sell, on the possibility that spot prices would rebound. Similarly, dealers looking to buy were sometimes hesitant, fearing spot prices might fall further. As a result, the show started off slow compared to what we have usually experienced in the past few years.

When attending such shows where LCS does not have a booth, our transactions are strictly dealer-to-dealer. The inventory we take to such shows are coins that are not of nice enough quality for us to offer to our retail customers or is inventory in excess of what we need for retail customers.

Our sales at this show may have been the highest LCS has ever had at any coin show in our 37 years in business! We certainly sold the highest percentage of inventory that we have ever taken to a show.

Our buying efforts were not quite as successful. We bought more compared to any ANA show for several years, but it was almost impossible to find any nice groups of attractive coins that represent exceptional value in today's market. For example, we sought more Choice MS-63 $5.00 Liberties to fill waiting lists from last month's offering but came home empty-handed.

Both of us came across modest groups of **Choice MS-63 $10.00 Liberties**, a US

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Gold Type Coin that is far scarcer than the same quality of $20.00 St Gaudens, has normally traded at higher to much higher prices than the Saint, but can be purchased today for less than MS-63 St Gaudens. When we got home and checked out the coins we found out that virtually none of the coins were the 1901-S, the most common $10.00 Liberty in high grade. These coins look like a temporary bargain buying opportunity. See our flyer for details.

As often happens at such shows, we did make contacts that may result in coming up with other deals down the road.

Activity picked up as the show progressed. When we asked dealers on Friday how the show was doing for them, they almost all were surprised to realize that the show had been very active for them.

There was widespread strength in the numismatic market. Even Common-Date US Gold Coins were in significant demand as dealers started getting orders at the lower gold prices.

Among the areas of less activity than others were the more common US paper money issues and US commemorative coins. Dealer inventories were definitely lighter than they have been in recent years.

Overall, the Baltimore ANA show confirms that the rare coin market is strong, and still has room to keep booming.

The Month

Gold Range	102.25	11.0%
Net Change	-51.75	
Silver Range	2.70	14.9%
Net Change	-1.63	
Gold/Silver Ratio		53.2
Net change		+2.0
Platinum Range	479.00	24.9%
Net Change	-353.00	
Platinum/Gold Ratio	1.83	

Date	Gold	Silver	Platinum
Jul 09	927.25	18.10	1,956.00
Jul 10	941.00	18.25	1,987.00
Jul 11	959.50	18.75	2,035.00
Jul 14	972.75	19.17	2,007.00
Jul 15	977.75	18.94	1,961.00
Jul 16	961.75	18.73	1,925.00
Jul 17	970.00	18.67	1,890.00
Jul 18	957.25	18.14	1,847.00
Jul 21	963.00	18.37	1,843.00
Jul 22	948.00	17.95	1,793.00
Jul 23	922.50	17.40	1,740.00
Jul 24	922.00	17.25	1,705.00
Jul 25	926.50	17.33	1,751.00
Jul 28	927.50	17.42	1,769.00
Jul 29	916.50	17.33	1,739.00
Jul 30	903.00	17.42	1,732.00
Jul 31	914.00	17.75	1,758.00
Aug 01	909.00	17.48	1,652.00
Aug 04	900.25	17.10	1,556.00
Aug 05	878.50	16.54	1,578.00
Aug 06	875.50	16.47	1,603.00

London Silver Market Premium To New York Silver Market = 7¢

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

Gold and Gold Coins

Gold finished today at $875.50, down $51.75 (5.6%) from last month.

LCS enjoyed strong demand for gold in the past month. Early in the month, a large number of buyers cited the fear of leaving funds in banks as their motivation to buy gold. In the past week, demand has been driven by bargain hunters taking advantage of suddenly lower prices.

We started to see some increase in retail liquidation as the price of gold topped $950. The spigot has largely turned off when prices later dropped below that level.

Demand for the lower premium coins has been so strong that there are now spot shortages. The South Africa **Krugerrand** (3.7%), of which there are millions of specimens in the US, is now scarce enough that it is difficult to fill even 500-coin orders in less than two weeks, and the premium is up slightly. When we checked for a customer yesterday, we found that the Mexico **50 Peso** (3.2%) was the available in quantity for immediate delivery. Other popular low premium choices continue to be the Austria **100 Corona** (3.1%) and US **American Arts Medallion** (3.2%), though we have had to take up to three weeks to fill larger orders for these coins.

Even though the price of gold fell in the past month, **Common-Date US Gold Coin** have generally held strong. Premiums are higher, and some coins have actually increased in price in the last four weeks despite the lower gold spot.

Better-Date US Gold Coins are even more popular than before, which means that they are even more difficult to locate.

Silver and Silver Coins

Silver closed today at $16.47, down a huge $1.63 (9.0%) from four weeks ago.

Retail silver demand rose in July, but not to the same degree as gold demand. When silver topped $18.00, we saw an increase in liquidation, but that has mostly stopped since silver retreated below that level.

There is no special developments with silver bullion-priced products since the last newsletter. US **90% Silver Coin** (1.9%) continues to be readily available and is the lowest premium form of physical silver that can be stored easily. US **40% Silver Coin** (1.7%) is a few cents per ounce cheaper but it takes much more storage space because of the 60% copper and nickel content. If 40% Coin has to be shipped, it also costs more per ounce of silver content than for 90% Coin.

100, 10, and 1 Oz Silver Ingots (5.5-6.4%) are popular because they are pure, but I don't think they are worth paying an extra 50-65 cents per ounce of silver content for the minimal amount of storage space savings. Ingots, especially the larger ones, also have the slight disadvantage of being less useful for possible barter transactions than 90% Coin.

Prices of many **Better-Date Morgan and Peace Silver Dollars** have inched upward in the past year. There are still many excellent bargains among some dates, mintmarks, and grades, though they are becoming more difficult to locate as time goes on. With some nice purchases at the Baltimore ANA, we finally have enough specimens of the **Better Date Morgan Silver Dollars** to make a general offering. The bad news is that many coins listed are still one-of-a-kind. For best selection, see our enclosure and call in your order early.

Another Honor For Heller

At the ANA Town Hall meeting last Friday in Baltimore, ANA president Barry Stuppler presented LCS General Manager Pat Heller with the American Numismatic Association Presidential Award. This award is presented a handful of times each year to someone who has contributed significant service to the numismatic hobby in general or to the ANA in particular. Pat's service as the current chair of the ANA Finance & Budget Committee, along with his lengthy support of numismatics locally and nationwide, were the basis for his selection for this award.

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