

# Liberty's Outlook

Volume 6 Issue 12 Liberty Coin Service's Monthly Review of Precious Metals and Numismatics November 29, 2000

## U.S. Rare Coin Market— The Boom Is Underway!

### P.3 Physical Silver Market Indicators Are Turning Positive!

Earlier this year, I was convinced that we were in the beginning of the next great bull market in collector coins.

That message was emphasized loud and clear at the Michigan State Numismatic Society (MSNS) Fall Convention in Dearborn this past weekend.

LCS Chief Numismatist Allan Beegle, Senior Numismatist Tom Coulson, and I hosted a booth at the annual Michigan State Numismatic Society (MSNS) Fall Convention in Dearborn. For three days, dealers combed through our inventory looking for coins to fill their customers' want lists. Collectors also feasted on our stock.

I was a bit surprised by the number of higher prices listed in some of our wholesale market references—and willingness of dealers to pay these prices and even more!

For the show as a whole, we enjoyed the highest sales of collector coins than for any show since the mid-1980s!

Part of the reason that sales were strong was that we had a lot of inventory to offer. We had been busy buying a number of interesting collections in the past few weeks (but we left many of the best coins in the vault back home to give you the first opportunity to purchase them!).

It seemed pretty obvious to me that the main reason our sales were so high is that the collector rare coin market is in the early stages of the next boom.

Experienced collectors, seeing the massive influx of new collectors drawn by the new Statehood Quarter series and the Sacagawea "Golden" Dollar, are adding to their collections

now before the increased competition forces up prices.

I reviewed our dealer sales from the MSNS. Most coins were sold in bulk lots, where individual prices were not listed. However, among the coins that were individually listed, a surprising number sold for prices in excess of *Red Book* or *Trends* catalog values—the two most popular reference guides for the retail selling prices for U.S. rare coins! Here's a sample:

Coin/Grade	<i>Red Book</i>	<i>Trends</i>	Sold For
1857 1/2¢, AU	\$175	\$200	\$220
1827 1 ¢, Fine	\$ 22	\$ 40	\$ 37
1819/8 50¢, Fine	\$ 45	\$ 50	\$ 47
1899-S \$1, MS-60	\$165	\$140	\$175
1953 Proof Set	\$120	\$150+	\$185

Remember, these are sales to dealers. Obviously, they plan to charge their retail customers even higher prices!

My curiosity piqued, I pulled out our annual surveys of rare coin indices. I checked the one that tracks fourteen of the most popular key date coins in the grades most frequently sought by collectors (such as the 1877 Indian Cent graded Good, the 1916-D Mercury Dime in Good condition, and the 1893-S Morgan Dollar in Very Good quality).

Since we did our last update in July, nine of the 14 coins have increased in price! As a group, the index was up 2.8% over the past four months. That's a far better result than we have seen in the U.S. stock markets or in the gold or silver bullion markets over the same period.

### **The Market Boom Focuses On "Collector Coins"**

This flurry of demand has focused on what I refer to as "collector coins." It has temporarily bypassed most of what I term "investment coins."

### **2000 Eagle Sales Plummet**

High platinum prices and the Mint's policy of using higher Zurich platinum spot prices have crippled the sale of Platinum Eagles this year. Because of the huge liquidation after January 1, 2000, Mint sales of Gold Eagles this year have almost evaporated. Here is the comparison of Mint sales for the first 11 months of 1999 and 2000.

<i>Platinum Eagles</i>	1999	2000
1 Oz	45,000	9,000
1/2 Oz	23,400	13,600
1/4 Oz	25,400	16,400
1/10 Oz	32,000	25,000

### *Gold Eagles*

1 Oz	1,385,000	55,000
1/2 Oz	226,000	45,000
1/4 Oz	500,000	40,000
1/10 Oz	2,525,000	185,000

*Note:* Sales figures are not the same as mintages. The Mint sells some following years coins to primary distributors in December of each year.

Collector coins typically include those that are better date issues or less common types of coins. They include many high grade coins and also a number of heavily circulated issues.

They form the core of the coin collecting hobby, with smaller and more gradual ups and downs than we see with investor coins. These are the coins that people want to own for enjoyment or because of their history, their beauty, or their sentimental heirloom qualities. Because they

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tend to be purchased with discretionary funds, they tend to change hands less frequently than investment coins (which contributes to their relative price stability).

Most collector coins are available in limited quantities. When a new influx of collectors comes into the hobby, these are coins that can appreciate a great deal.

Generally, investor coins are those that are available in large enough quantities in high grades that they can be used in mass promotions as investments by telemarketers. Many so-called "generic" or "Blue Chip" coins fall into this category including high grade common-date Morgan and Peace Silver Dollars, and common-date U.S. \$20.00 Gold Double Eagles.

Investment coins can be quite volatile because 1) supply is sensitive to price—when prices are high, more coins are being liquidated, and 2) though collectors enjoy these coins, the total demand varies enormously depending on whether a telemarketer has a successful promotion underway.

Actually, I think the investment coins would have been rising along with the collector coins except for the series of liquidity crises that hit wholesale dealers over the past year. When wholesalers dumped lots of inventory on the market at the same time, prices fell. They remained low as long as wholesalers lacked the cash flow to rebuild their inventories.

It seems to me that the weakness in investment coins is now past the bottom. Prices aren't surging yet, but we see modest increases here and there.

There is real opportunity for appreciation with investment coins because, like the collector coins, the supplies in dealer hands are tight. For instance, it would be difficult to assemble a thousand piece lot of MS-63 Saints, a task that could have been accomplished with only a few phone calls a few years ago. In the early 1980s, there was a single transaction of 126 Mint-

sealed bags (126,000 coins) of uncirculated 1881-S Morgan Dollars. Today, I don't know if even one such bag could be found.

To summarize:

1) I expect "collector coins" to enjoy solid appreciation over the next few years as the number of serious coin collectors continues to grow.

2) I think "investment coins" will average just as much appreciation over the long run as the collector coins. However, there is some possibility for sharp increases in short periods of time that present some real opportunities for savvy collectors and investors.

3) A word about price guides and catalogs—remember that they are a guide. They are not absolutely accurate. Although the *Red Book* and *Trends* generally provide useful price information, they will often be behind the market; showing prices too low in a boom market and prices that are too high on the downward part of the market cycle. If you have a possible interest in a coin that is way above or below the catalog value, please ask the dealer to explain why. If the explanation does not satisfy you, watch out!

## LCS And Staff Receive More Honors!

The honors keep coming in for LCS and its staff. We were recently notified that a competitor nominated our company for 2000 Michigan Retailer Of The Year, an award sponsored by the Michigan Retailers Association and the *Detroit News*. A total of 23 nominations were considered this year.

When the winners were announced in mid-November, we did not win. It is still an honor to be held in such esteem by a competitor that they would nominate us for this award.

Last Saturday, the Board of Governors of the Michigan State Numismatic Society (MSNS) voted to sponsor a program seeking design ideas for the forthcoming Michigan state quarter, working in partnership with the Michigan governor's office. While anyone may submit a design idea, the primary focus of this effort will

be schoolchildren across the state. LCS General Manager Pat Heller was appointed chairman of the committee responsible for this program.

The next day, Pat received a Certificate of Appreciation from MSNS in recognition of his "outstanding efforts" at promoting the hobby to young collectors. He is the only person to be so recognized in several years.

## Buy Gold For Insurance—Now!

As I have already said, the apparent weakness in the price of gold exists only when priced in U.S. dollars. Against other major currencies, gold is actually up from a year ago.

Two weeks ago, the World Gold Council (WGC) reported that worldwide gold jewelry demand for the first nine months of 2000 topped 1999 record-setting levels by 1%!

The WGC also reported that investment demand for gold had fallen compared to 1999's record levels. In the markets they survey (approximately 80-85% of worldwide demand), investment demand for gold dropped from 12.2 million ounces in the first nine months of 1999 to 8.9 million ounces in the same period in 2000.

The U.S. market is the largest for gold investment demand. American demand dropped from 10.6 million ounces in the first three quarters of 1999 to only 8.6 million ounces in the same period in 2000.

Taking jewelry and investment demand together, total gold demand declined 3% for the first three quarters against 1999's record setting levels!

When I look at the above statistics, one thing really strikes me. In 1999 we sold massive amounts of gold coins and ingots to investors worried that the world might come crashing down on January 1, 2000. This demand evaporated this year. In fact, we repurchased large quantities of gold in the first four months of this year.

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## Did You Know?

Because U.S. banknotes have unique serial numbers, it is possible to track auction appearances of the same note over time.

At the recently concluded R. M. Smythe Auction at the National and World Paper Money Convention in St Louis, Large Size U.S. Paper Money sold for high prices. Here are some dramatic indications (listing by Friedberg catalog #) of just how strong:

A Fr-2 bought for \$2,420 on 5/2/97 sold for \$9,075; Fr-16 bought for \$1,375 on 9/19/97 sold for \$2,860; Fr-19 bought for \$660 on 9/6/96 sold for \$1,595; Fr-31 bought 6/16/95 for \$1,200 sold for \$2,750; Fr-41 bought 9/6/96 for \$2,310 sold for \$4,510; Fr-44 bought 6/22/96 for \$850 sold for \$2,420; Fr-45 bought 10/23/98 for \$4,950 sold for \$9,900; Fr-95b bought 12/96 for \$2,950 sold for \$7,700; Fr-125 bought 8/15/97 for \$1,760 sold for \$4,510; Fr-137 bought 4/6/97 for \$2,000 sold for \$5,500; Fr-215 bought 5/17/95 for \$1,100 sold for \$3,520; Fr-240 bought 1/9/98 for \$880 sold for \$1,430.

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**The WGC figures for investment demand only include sales of newly issued gold coins and ingots, not the resale of coins and ingots previously issued!**

In other words, there is still a strong demand for investment gold in the U.S. even without Y2K fears!

There are plenty of reasons why investors would want to own gold, not the least of them being the poor performance of the U.S. stock markets in 2000. There are also signs of approaching recession (the automotive/truck industry expects to sell 3% fewer vehicles in 2001 than in 2000 and is laying off employees in anticipation) and inflation (the M3 definition of the U.S. money supply increased 9.9% from August 1999 to August 2000).

On top of those reasons, throw in the uncertainties of the U.S. presidential election and the dumping of U.S. stocks and bonds by foreign investors seeking to avoid new IRS regulations that take effect on January 1, 2001.

The U.S. dollar has been strong partly because of the past impressive performance of the U.S. stock markets. Today's *Wall Street Journal* reports that the Dow Jones Industrial average is down 8.61% since the beginning of the year, the S&P 500 declined 9.06%, and the NASDAQ has fallen 32.79%. If we get more of the same next year, the dollar could easily fall from its lofty heights. Right now, owning gold for insurance against other financial calamities looks mighty attractive.

## Gold and Gold Coins

Gold closed today at \$266.75, an increase of \$2.75 (1.0%) from four weeks ago.

The price of gold has not closed at or above \$280 since July 21. This summer, I did not expect gold to fall much below that level. The reason was that when gold dropped below \$280 earlier this year, a groundswell of demand would appear in India, the world's largest gold-consuming nation.

However, since the India rupee has fallen 5% against the U.S. dollar in recent months, that floor of \$280 also needs to be reduced by 5%. If my theory is correct, then the bottom of the current gold cycle is just under \$266.

If you look back over the gold spot prices of the past few months, it has never closed below \$264, which is around the level that the price-sensitive

gold buyers in India would enter the market.

In the past month, we have seen a significant increase in demand for physical gold. Demand for U.S. **American Eagles** (5.5%) has been so strong that the overhang of massive supplies sold off earlier this year have been exhausted! Premiums are back up to almost where they were a year ago!

With no more competition from low-premium American Eagles, we have also seen other premiums rise in the past month.

The best low premium buys remain the U.S. **American Arts Medallion** (2.7%), Austria **100 Corona** (2.9%), South Africa **Krugerrand** (3.1%), and Mexico **50 Peso** (4.0%). The Medallions now have a \$7.50 per ounce cost advantage compared to the American Eagle, up from a \$3.50 difference this past spring.

Premiums are also up among the smaller gold coins. The British **Sovereign** (6.3%), French **20 Franc Roosters** (7.4%), and Swiss **20 Francs** (7.4%) are the best buys.

By the way, there is some possibility that the 2000-date 1 Oz American Eagles may have the lowest annual mintage of its entire 15 year history! Right now, you can buy 2000-date American Eagles for only a couple dollars more than for pre-2000 coins. If you want to own an heirloom-date coin and possibly make money off of rarity, the risk is limited.

**Common-Date U.S. Gold Coins** have fallen a bit from past months in circulated grades, but are slowly inching upward in top quality. At the MSNS show this past weekend, we could have sold any common-date circulated \$20.00 Saint Gaudens we could have gotten our hands on.

I can't think of anything new to say about **Better-Date U.S. Gold Coins**. Collectors snap them up quickly whenever they show up.

With persistence, you can find some wonderful bargains in **World Gold Coins**. A wonderful group of **Canada 1967 \$20.00 Centennial Commemoratives** fell into our hands recently. It is the only gold coin issued in North America in the 1960s, when Americans were forbidden to own most gold coins. We are offering this popular rarity at a lower premium above gold value than some Canadian gold bullion coins. See our offer for details.

## Silver and Silver Coins

Silver closed today at \$4.63, down fourteen cents (2.9%) from four weeks ago.

However, this small drop in the spot price does not mean that the price of physical silver products has dropped right along with it. On the contrary, premiums have risen on most forms of silver bullion so that the actual product prices are little changed from last month!

In mid-November, we started receiving unsolicited calls from silver refiners seeking ingots that they could purchase and melt down.

In the past, refiners were paying anywhere from eight to fifteen cents below the spot price, a level at which they could profitably reprocess the ingots into 1,000 ounce bars that could be deposited into bonded warehouses, then sold on the commodity exchanges at the spot market price.

When refiners started calling us a few weeks ago, they offered to pay us full spot price for any ingots we could spare. Obviously, they were not trying to buy silver to reprocess and sell onto the commodity exchange for spot price—that would be a money-losing proposition. Instead, they were seeking silver to fill industrial orders at prices above spot!

In just the past month, the physical silver available to cover U.S. commodity contracts declined by 4%. When supplies are getting so tight that manufacturers can no longer buy commodity contracts and take delivery, things are ready to get interesting.

The premium on bags of U.S. **90% Silver Coin** (4.8%) climbed from fifteen cents above spot at the beginning of this month to twenty-two cents today. Four weeks ago, the retail premium was high enough that refiners could not profitably melt down 90% Coin. With the premium higher now, I doubt they can make a profit refining it to directly fill industrial orders at above-spot prices.

My two main indicators of quick near-term jumps in the price of silver are if the retail premium on 90% Coin is higher than 2% and if the price of silver on the London market (which requires ingots of .9999 purity instead of the .999 purity required for U.S. commodity exchanges) is at least 5-7 cents higher than New York prices.

The first indicator has been positive for more than a month now. The second indicator, at only a three cent differential,

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is not yet sounding the alarm. However, the London market traded at par and sometimes even a slight discount to New York prices for much of this past summer. It has slowly crept up to today's three cent premium. So, although this indicator is not positive, it is certainly headed in that direction.

It is possible that both indicators could present positive signals within the next three months. The best time to acquire your silver bullion is before the spot price starts soaring. If you do not already own your core position of silver bullion, by all means do it soon!

Premiums on U.S. **40% Silver Coin** (7.3%) and **100, 10, and 1 Ounce Ingots** (4.3-11.9%) are also up some. At the moment, the 100 Ounce ingots have a slight price advantage over 90% Coin. They are worth considering as part of a large holding of physical silver.

However, I still recommend that your initial purchase of physical silver be in the form of 90% Coin, which has the best liquidity, greatest divisibility, and tightest buy/sell spreads.

U.S. **Silver Eagle Dollars** (38.4%) dated 2000 are still being sold by the Mint. When the Mint cuts off orders to begin production of 2001-date coins, as could happen any day now, I anticipate that the premium will rise. Even though the mintage will be at least the third highest of the 15 years of production thus far, they are a great keepsake memento of the turn of the millennium. They are overpriced as a way to own silver bullion, but make a great gift.

Prices of **Mint State Common-Date Morgan and Peace Dollars** are edging upward with dealer supplies tighter than we have seen in some time. Compared to the weak performance over the past year of many "generic" gold and silver coins, Pre-1921 Morgan Dollar rolls are actually up from a year ago! See our offering of the **Mint State 1904-O Morgan Dollar rolls** for an unexpected opportunity.

Many **Better-Date Morgan and Peace Dollars** have also appreciated in the past year. These are even more difficult to locate than generic coins. For instance, when our small group of MS-64 1921-D Morgan Dollars sold out quickly last month, we were unable to find any

### The Month

Gold Range	\$ 5.75	2.2%	
Net Change	+2.75		
Silver Range	.14	2.9%	
Net Change	-.14		
Gold/Silver Ratio	57.6		
Net change	+2.3		
Platinum Range	17.00	3.0%	
Net Change	+15.00		
Platinum/Gold Ratio	2.21		
<b>Date</b>	<b>Gold</b>	<b>Silver</b>	<b>Platinum</b>
Nov 01	264.00	4.77	575.00
Nov 02	264.50	4.71	591.00
Nov 03	264.75	4.74	588.00
Nov 06	265.00	4.76	581.00
Nov 07	264.50	4.74	588.00
Nov 08	265.00	4.74	589.00
Nov 09	266.00	4.75	590.00
Nov 10	264.50	4.71	589.00
Nov 13	264.25	4.68	580.00
Nov 14	264.50	4.68	585.00
Nov 15	265.00	4.68	583.00
Nov 16	265.75	4.66	576.00
Nov 17	265.75	4.65	583.00
Nov 20	266.50	4.66	585.00
Nov 21	265.75	4.63	579.00
Nov 22	266.25	4.63	579.00
Nov 23	closed		
Nov 24	closed		
Nov 27	269.75	4.69	588.00
Nov 28	269.50	4.69	592.00
Nov 29	266.75	4.63	590.00

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.

year flew by at a torrid pace, with a quarterly sales record set in only the first nine weeks of the year!

Then, when the post-Y2K gold and silver liquidations were largely over, the high-flying "dot.com" stock bubble burst, the demand for Statehood quarter hobby supplies was largely filled, and everyone had a chance to see the new Sacagawea "Golden" Dollar, we saw several months of the slowest activity in years.

Still, the year is ending on a strong note. Our volume for the year will almost equal last year's, which was our highest volume year since the bullion boom of 1979-1980.

The current trends in the gold, silver, and numismatic markets have me looking forward to 2001 with enthusiasm.

Still, I would much rather be rich in immaterial things like a growing and loving family and good health. Without them, material wealth seems almost meaningless.

As always, our wish for you is that the season finds you at peace, rich in the gifts on which you cannot place price tags.

*Merry Christmas and Happy New Year  
From the LCS staff:*

*Nancy, Tom, Bob, David, Charles,  
Barb, Bob, Allan, Paul, Pat*

acceptable quality specimens in any dealer's stock. All we could find were two ugly pieces that were priced sky-high. This month, we are fortunate to offer a wide variety of dates of the scarce **Mint State Carson City Silver Dollars**. See our flyer for details.

### A Time To Reflect

Another year is coming to an end. With the approaching holidays, it is time to fully appreciate all the blessings that have come into our lives.

The year 2000 was one of wide contrasts here at LCS. The first four months of the