Liberty's Outlook

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Gold Tops $400, Near 15-Year Peak! Silver Reaches 4-Year High! Platinum Highest In 23 Years! Rare Coin Demand Hottest In Over A Decade!

Two months ago, I stuck my neck out and made a lukewarm prediction, "I do not expect it to take long for gold to pass $400."

Just two months later, to the day, gold closed at $402.50 in the US, the first close above $400.00 since February 28, 1996 and the highest close since it settled at $405.25 on February 16, 1996.

In fact, gold is close to its $415.25 close on February 2, 1996, currently the highest gold price since December 27, 1988!

I now anticipate that gold will surpass that level soon, perhaps even before the end of December.

As I have informed my readers for years, gold was simply too cheap when it dropped to the mid-$250s in the late 1990s. Since the early 1990s, newly mined and recycled supplies failed to meet industrial demand. These huge shortages could only be covered over with paper gimmickry just so long.

The major gimmick was created by the gold mining companies, where they pre-sold their future production, "borrowing" gold from central banks to be able to instantly deliver physical metal.

For more than two years, this paper gimmick to increase supply has been working in reverse. The mines, fearful of borrowing gold at a low spot price and having to pay it back when the price was much higher, have been aggressively closing out their forward sales positions. In doing so, the physical shortages have been magnified.

This shortage grew even larger as the central banks began reducing the amount of gold they made available for lease. With interest rates so low that they no longer covered the central banks' risk of capital loss, there just was not the incentive to roll over leases as normally happened in years past.

Then you have the central banks collectively cutting back from their high levels of liquidation in the 1990s. Even more than that, China's central bank has been using a small percentage of their mushrooming foreign exchange reserves to add enormous quantities of gold to its portfolio.

So, over the past 34 months, gold has climbed 58%!

Several analysts now looking at the gold market think that it may be close to running out of steam.

If you were just looking at the gold market in a vacuum for the past few years, you might agree that gold deserves to take a breather.

But that is not the way the world works. The gold market is in competition with all the other niches where investors and consumers may allocate their limited resources.

Even among governments, the demand for gold as a reserve asset is in competition against the US dollar and all the other paper currencies.

A minor part of the rise in gold over the past few years has been in reaction to the perceived overvaluation of paper currencies.

Looking into the future, I think the long-term fundamental supply shortage of gold will be less important to the price of gold than the growing fear of holding paper currencies and intangible assets such as stocks and bonds.

Right now, paper assets are being propped up by a US government policy of easy money. In the US, the supply of money, broadly defined, has been growing at 5-10% annually.

At the same time the US Federal budget deficit has soared to all-time record levels, necessitating massive borrowing. Also at the same time, the US trade deficit with other nations has reached its highest levels ever, both in absolute dollar figures

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and as a percentage of US Gross Domestic Product (GDP).

To keep the economy from collapsing due to inflation and the burden of bigger government, the Fed has pushed down interest rates to their lowest levels in 45 years.

Those who are cynical simply say that all of this financial meddling by the government is a ploy to ensure the re-election of President George Bush in eleven months, and they may not be completely wrong.

However, all of this recent intervention in the market has failed to stabilize the budget or trade deficits. Long-term interest rates have actually been climbing for the past several months.

So what new tricks can the government pull to "improve" the economy?

Little, I think.

- How can you push down interest rates further that are already near zero?
- While the stock markets have dropped since the spring of 2000, there has not been a corresponding decline in housing prices in the US. There may be room for stocks to continue their rise of the past year, but the housing market is a different story. Rising mortgage rates are almost certain to reduce demand, which normally leads to a stable (at best) or (more likely) a falling real estate market.
- In 1987, consumer debt was only 70% of consumers' after-tax income. In 1995, it was 80%. Today consumer debt is at an all-time high. For the first time ever, it exceeds consumers' after-tax income!
- Consumer spending accounts for more than two-thirds of GDP, which means that any pull back in buying will have a devastating effect on the economy.
- Government spending is also at record levels. It can finance the continued spending frenzy only through higher taxes, borrowing, or inflating the money supply.
- None of this even takes into account the unfunded liabilities of the US government, primarily Social Security and Medicare. As discussed more thoroughly in the November 24 issue of *Fortune*, the US government, on an actuarial basis, owes $44 trillion ($44,000,000,000,000) that it does not recognize on its books yet.

Even though the stock markets have been rising for a year, I doubt that the average stock investor has taken into account the worsening dire financial straits of US consumers and government (or of the rest of the world, for that matter).

What It Means For You?

It may be possible for the politicians to maintain the fiction of the "economic recovery" through the November 2004 elections. Even if the recovery lasts that long, no nation's economy has avoided the crises wrought by the financial abyss into which the US is now headed.

In my worst nightmares I see unemployment and corporate failures at levels never before seen in the US. The dollar could become worthless.

Already, the dollar is trading at an all-time low against the Euro and multi-year lows against the Yen, Pound, Swiss Franc, and other major currencies.

In my most optimistic scenario, the U.S. dollar will fall *only* about 50% from today's levels, taking several years to do so.

Even with a relatively simple analysis presented here, it seems obvious that the way to protect your assets is to make sure that you own insurance in the form of tangible assets such as gold, silver, and rare coins (also known as "hard assets").

It isn't practical to operate without having currency in one's wallet, and bank accounts and credit card accounts denominated in paper currencies. Although I consider the US dollar (and pretty much all currencies) to be risky, I am not advocating trying to completely extricate oneself from paper assets.

In normal times, I suggest that 5-10% of one's net worth be held in the form of hard assets as insurance against calamities with paper assets. With the elevated risk of falling paper asset values, a prudent person might easily consider putting 20% of his or her net worth in hard assets.

As for timing, I don't think there is any time to waste.

Gold may have climbed a huge amount from its lows a few years ago, but I still think we are in the early stages of the next great bull market.

Silver has been quiet for so long, that it seemed like almost nothing would awaken it. In the past month, though, silver has jumped almost 10% in response to both the prospects of an improving economy (if the politicians are able to manipulate the economy successfully) and the possibility for a further decline in the US dollar. Either may be the spark that will finally launch the silver skyrocket.

Rare coins are gaining even more steam. At two major shows in the past two weeks, I observed even ancient and foreign coin specialists humming with business, not just dealers in US issues.

At the Santa Clara Expo in California, foreign specialists were literally chasing me down the aisles to ask for the opportunity to examine my inventory.

At the Michigan State Numismatic Society Fall Convention in Dearborn last weekend, one long-time dealer next to the LCS booth said he enjoyed his best coin show ever!

For those comfortable owning rare coins, I suggest diversified holdings. It is difficult to focus on one category as being preferable to any other, but US Nickel coins are a good possibility. After the new nickels come out in 2004, I expect a jump in demand and prices for the series of Shield Nickels, Liberty Nickels, Buffalo Nickels, and even Jefferson Nickels.

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Prices for many nickels today are only 10-20% of what they were in the past, so there is plenty of room for appreciation. High grade coins have fallen the most, and now look to be the better value compared to average circulated or low grade Mint state specimens (key and semi-key issues excepted).

The platinum market is experiencing a shortage of new supplies to meet industrial demand of the past few years. But I am not as enthusiastic for its prospects as I am for gold, silver, and rare coins. I am even less enthusiastic about palladium. But the adventurous may want to consider one or the other.

Action Summary: Increase your holdings and gold and silver and also possibly rare coins to 10-20% of your net worth. Get working on it today!

Gold and Gold Coins

Gold closed today at $404.00, an increase of $21.50 (5.6%) in the last four weeks.

Normally, when the price of gold jumps sharply, especially when it reaches an important psychological point such as $400.00, you see a significant increase in liquidation and a temporary fall off in demand.

This week, we have had the opposite experience. Liquidation is holding steady with the past few months, but our retail demand has increased noticeably!

When gold rises to the degree it has in the past month, you usually see at least some decline in premiums. Not this time! Some premiums have even inched upward!

The trend of gold mining companies to reduce their pre-sold gold positions got another shot in the arm two weeks ago. Greg Wilkins, the president and chief executive officer of Barrick, the world's second largest gold mining company, announced that the company had adopted a new policy of not hedging future gold production. At present, the company has contracts outstanding for 16 million ounces of pre-sold gold, roughly equal to 15-20% of annual worldwide gold production!

Wilkins said, "We believe that our shareholders will benefit from our continued commitment to reduce the hedge book and our no-hedge policy."

If a company anticipates lower prices in the future, it would make sense to pre-sell their gold at today's higher gold prices. That Barrick, which had been one of the largest forward sellers of gold, is turning completely against their previous policy, is a strong indication that insiders anticipate much higher gold prices in the future.

The low-premium forms of physical gold are still the U.S. **American Arts Medallion** (3.7%), Austria **100 Corona** (3.4%), and South Africa **Krugerrand** (3.6%).

Premiums are up on the U.S. **American Eagle** (5.3%) as the U.S. Mint just announced they have already sold out their entire mintage for 2003. Distributors have requested that the Mint produce more coins to meet demand, but we do not know the answer as this issue goes to press.

We have seen premiums edging upward on the lower premium smaller-size gold coins from Europe. This is no doubt due to the price of gold rising less in Euro terms than it has in dollar terms. Still, you can acquire coins such as the British **Sovereign** (7.5%), French **Rooster** (9.0%), and Swiss **20 Franc** (9.0%) at much more reasonable premiums to what they were selling at in the 1970s

Common-date U.S. Gold Coins have been rising right along with higher gold prices, and often doing even better. In the past month, the 8-piece U.S. Gold Type Set in Very Choice Mint State-64 quality is up 13%! Double Eagles of any grade and type are also up. Even though prices are up, however, high-grade coins are still selling for a fraction (15-35%) of what that have sold for in the past. As such, many still represent excellent values right now.

As solid as we have seen demand for the Common-Dates, demand for **Better-Date U.S. Gold Coins** is even more impressive. Other dealers continue to purchase a surprising number of coins at what that we thought were fair retail prices! That simply is further evidence of how difficult such coins are to find. Because it is a niche where LCS has long been active, we have better contacts to find new material than most dealers.

Our biggest competitors are the savvy collectors who try to find coins before we have a chance to acquire them. We have some fresh coins to offer in our **Hot Rare Coin Bargains**. Hurry to pick them up—there are very few.

We also had the opportunity to acquire a number of **World Gold Proof Sets and Coins**, some **Gold Christmas Coins**, plus a small group of the low-mintage **1992 Isle of Man 1/20 Gold Cat with the Christmas Bells mintmark**. We offer all of them at mouthwatering prices. Please see our enclosed flyers for details.

Silver and Silver Coins

Silver settled today at 5.46, up a huge 47 cents (9.4%) from a month ago.

There has not been any particular news affecting silver in particular in the past month. Instead, I suspect most of the movement came for two other reasons.

First, the strength in gold has encouraged interest in silver by people who figure they missed out on the rise in gold and consider buying silver as a second chance to catch a strong precious metals market.

Second, the strong reports of a surging economy bode well for higher demand for silver for industrial applications. New supplies can not increase except on a significantly delayed basis (figure two years at the quickest) after the price of silver has jumped sharply and stayed higher.

From these two reasons, you can see that silver's prospects are bright no matter whether the US dollar and economy improves or whether they hit the skids.

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In news that shocked dealers and wholesalers across the country, the US Mint announced in early November that it had sold out its entire mintage of 750,000 2003 Proof Silver Eagles. That this incredibly high mintage coin would sell out well before a normal gift buying surge in demand in December is just one more demonstration of the growth in the rare coin market in recent years.

As normally happens with a significant price increase, silver premiums declined in the past month. U.S. **90% Silver Coin** (3.7%) is still the low price leader and is our top pick for acquiring physical silver.

The **1-100 Ounce Ingots** (9.2-8.2%) are worth considering, especially if limited space is a problem.

As discussed in more depth last month, the rare coin market has been quietly outperforming the stock markets for the past few years. Smart collectors know, even though prices are up a modest amount, that there are so many rare coins available today at a tiny fraction of their prices at the last market peak. It is still "bargain-basement" days in the rare coin market compared to what I anticipate lies in the future.

For instance, I project that coins such as **Better-Date Morgan Silver Dollars** will do much better in the next few years than they have done since 1999. Will they double or triple? I think there is an excellent chance. Will they jump to ten times their current prices? It is not out of the question. We offer some of our Gem Mint State-65 recommended Morgans this month. See our enclosed flyer.

The Month

Gold Range	$24.00	6.3%
Net Change	+21.50	
Silver Range	.52	10.4%
Net Change	+.47	
Gold/Silver Ratio	74.0	
Net change	-2.7	
Platinum Range	22.00	2.9%
Net Change	+15.00	
Platinum/Gold Ratio	1.91	

Date	Gold	Silver	Platinum
Nov 05	382.50	4.99	758.00
Nov 06	380.00	4.97	756.00
Nov 07	383.25	5.05	755.00
Nov 10	386.25	5.08	757.00
Nov 11	388.00	5.06	758.00
Nov 12	394.75	5.33	762.00
Nov 13	394.25	5.28	767.00
Nov 14	397.50	5.40	767.00
Nov 17	391.25	5.23	752.00
Nov 18	397.25	5.36	767.00
Nov 19	395.00	5.27	764.00
Nov 20	393.75	5.26	763.00
Nov 21	396.00	5.29	757.00
Nov 24	391.75	5.24	752.00
Nov 25	391.00	5.30	753.00
Nov 26	396.50	5.35	764.00
Nov 27	closed		
Nov 28	closed		
Dec 01	402.50	5.44	769.00
Dec 02	403.50	5.49	774.00
Dec 03	404.00	5.46	773.00

London Silver Market Premium To New York Silver Market = 1¢

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

Release Of Michigan Quarter Still Unsettled

Sometime between January 2, 2004 and January 26, 2004, the U.S. Mint will begin shipping the Michigan State Quarters to Federal Reserve Banks around the country. They should begin appearing in circulation a few days after this.

The Mint was so overwhelmed with work, such as creating the new nickel designs, that they were much slower than expected in rendering their versions of the five candidate designs for Michigan. This has held up creation of the dies needed to strike the coins.

At best, the Michigan quarters will go into production sometime next week. The Mint held first strike ceremonies for the first few state quarter issues, but none since. However, it may hold one for the Michigan quarter. If it happens, it is likely that I will be a participant. If so, look for pictures on our website or in next month's newsletter.

As we previously let you know, LCS will not be selling Michigan quarters to the public during the release period. Instead, we will give them to you in exchange for donations of non-perishable food to the Greater Lansing Food Bank (limit four per person).

To add to the celebration of the Michigan quarter, LCS will hold a drawing in mid-March to award several prizes, including a Lansing, Michigan National Currency Note with the printed signature of R. E. Olds, the founder of Oldsmobile, plus some unique commemoratives for the Michigan quarter that have not been done for the quarters of any other state thus far.

The nature of these mystery commemoratives is a top secret project that will not be unveiled until the Michigan quarters are out. Don't bother to try to pry the information out of LCS employees—most of them don't even know.

As more definite information becomes available, we will be posting it on the LCS website (www.libertycoinservice.com) and at www.michiganstatequarter.com.

In the meantime, you may view the final design of the Michigan quarter at the latter website.

A Holiday Wish

In 2003, LCS has been blessed with one of the best years in a long time. We have grown to the highest staff levels in company history.

It is our privilege to serve you. You are the best customers in the world.

Thank you for your patronage.

As we do every year, we wish you a holiday season filled with health and the wealth of family and friends. May you be rich in the good things on which you cannot put price tags.

Merry Christmas
Happy New Year

Janet, Dany, Ruth, Fred, Pam, David, Charlie, Barb, Paul, Tom, Allan, Pat

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