Liberty's Outlook

Volume 10 Issue 12 Liberty Coin Service's Monthly Review of Precious Metals and Numismatics December 1, 2004

As U.S. Dollar Drops . . .

Gold Climbs To 16-Year High, Silver Nears 17-Year High!

In the May 12, 2004 issue of *Liberty's Outlook,* with the gold and silver spot prices at $377.50 and $5.57, respectively, I forecasted:

"Although I anticipate some behind-the-scenes market manipulation to hold down the price of gold before the November elections, I predict that gold will reach $450 by the end of 2004."

"I also think silver will rebound, going even higher than the $8.20 that it reached on April 6. It may not get to $8.00 until after the elections . . . ."

Gold topped $450.00 late last week!

Silver closed at $8.02 today, up 44% in the past 29 weeks!

Gold has risen more than 77% since it closed at $255.50 on February 15, 2001. Silver is up more than 98% since it traded at $4.04 on November 27, 2002. (There are not many stocks or bonds that can claim that track record recently.)

In such strong bull markets, it is normal to see periodic significant profit-taking from time to time.

We saw that briefly this spring. Silver closed at $8.20 on April 6, its highest price since August 6, 1987. Short-term profit-taking knocked the price all the way back down to $5.53 on May 11. Silver did not climb back above $6.00 to stay until July 7. It did not finally stay over $7.00 (so far) until October 19.

The gold market, as usual, was less volatile. After reaching a 16-year high at $427.50 on April 1, gold was knocked down to $376.75 on May 14. It took until September 10 for the price of gold to hold above $400..

Even including the correction of this past spring, the gold and silver markets have been very profitable to investors over the past few years. At some point, a bull market runs its course. Has it finished its run?

Is The Bull Market Over?

I don't think so!

In my judgment, we are nowhere close to the top of the gold and silver market. Both metals are still suffering from long-term physical supply shortages that will continue for at least several years, even if gold and silver prices double from current levels. (Please refer to the July and August issues of *Liberty's Outlook* for the background data and analysis.)

In addition to favorable supply/demand fundamentals, the gold and silver markets also look severely underpriced today compared to competing assets like the U.S. dollar and paper assets like stocks and bonds that are denominated in U.S. dollars.

There is a lot of pressure for the U.S. dollar to fall significantly from current levels. Just last year, former Federal Reserve Chairman Paul Volcker said he thought that there was a 75% chance of a U.S. dollar currency crisis within five years—an admission almost never made by an insider.

The largest pressures on the U.S. dollar are the huge budget deficits and trade deficits.

These deficits have to be covered, by either higher taxes, borrowing, or by reducing the value of the dollar through inflation. President Bush and his administration are primarily using the latter two strategies with minor impact on the American economy—so far.

China and Japan are adding hundreds of billions of dollars of U.S. Treasury debt to their foreign exchange reserves. Including Taiwan, South Korea, and Singapore, the U.S. government now owes over $700 billion on which it has to pay interest!

Both China and Japan have been aggressively supporting the value of the U.S. dollar by taking this debt off the market at a record pace. In the process, they are trying to prop up their own exports to America.

For Americans, this is a great deal—receiving manufactured goods in return for printed pieces of paper.

The U.S. trade deficit is now up to 6% of Gross Domestic Product (GDP), a higher imbalance than any other major nation has ever sustained for long. Argentina was able to handle a 5% deficit a few years ago before its currency crashed.

The day will come when America's trading partners will not be satisfied with more paper and promises. As the U.S. government's outstanding debt in foreign hands mushrooms, holders of U.S. government debt get more nervous. At some point, they would like to convert this debt out of U.S. dollars into something less risky—like tangible merchandise, services, other currencies, or gold.

Even nations such as Singapore or South Korea have enough U.S. government debt in their reserves that either could cause a U.S. dollar panic. What is holding such nations back is the economic chaos that their nation's domestic economy would suffer if exports to

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the U.S. were sharply curtailed.

Although it may take a few years before it happens, there will be a time where one or more major foreign governments no longer want to stockpile any more U.S. dollars.

When that time comes to pass, I expect the U.S. dollar may fall sharply. A recently released scholarly study figures that the U.S. dollar has to decline a minimum of 20-40% against an average of all other currencies in order just to stabilize the current deficits, much less cure the problem.

A lower value of the U.S. dollar will help American manufacturers compete globally, by making their goods and services less expensive. We just might see a surge in U.S. manufacturing, with companies reporting higher profits. While that might look like good news on the surface, a U.S. manufacturer's 10% profit increase reported in a U.S. dollar that has lost 20% of its value means that owners of that company's stock are losing wealth!

Domestic and foreign investors will not be taken fully by surprise. They will see that dollar-denominated paper assets are high-risk investments. Some will cash out, investing in paper assets in other currencies. And some will buy commodities—like gold and silver.

In the past few weeks, investors have seen the U.S. dollar reaching all-time lows against the Euro. Gold and silver prices have surged in response. But what we have seen in the recent past is nothing compared to what I foresee coming in the next year or two.

Last month, I gave a 50-75% probability of gold reaching $500.00 and silver $10.00 by the end of February 2005. I am much more optimistic than that now.

Not only do I think it likely that we will see $500.00 gold and $10.00 silver by the end of February, I expect to see far higher prices in the next year or so.

How High For Gold And Silver?

Forecasters are all over the map on what they see as the target peak for precious metals. Some didn't think silver had much chance to rise over than $8.00, for instance, while others tout a silver price over $100. The truth is that no one knows.

After looking at fundamental supply and demand factors for physical gold and silver over the past few decades, I think I can conservatively project long-term equilibrium prices. Gold is more difficult to assess because of all the official holdings. So, I think a sensible range for gold to reach a long-term balance is somewhere between $750 and $2,000 (in 2004 dollars). For silver, I think it is destined to end up around $15.

Before a market reaches equilibrium, however, it usually is quite volatile, with prices swinging too high and too low. We could see prices significantly higher than the foregoing in the interim. The longer that gold or silver is significantly underpriced, the greater the tendency to blast way above the long-term target.

If the U.S. dollar does not go through a crisis, I think gold could conservatively reach at least $750 while silver tops $20 within two years.

However, I agree with Volcker that the U.S. dollar is in danger of a collapse or other crisis. Even if a crash might not occur on its own merits, investors who fear that possibility may cause the dollar to collapse as they get rid of dollar-denominated paper assets.

In such a scenario, gold and silver prices in U.S. dollars will be meaningless. What will matter is what gold or silver can be traded for. Right now, an ounce of silver or eight U.S. dollars will pay for lunch in most restaurants. If the dollar crashes, you will still be able to buy lunch for an ounce of silver, and it won't matter if the price of the meal in U.S. dollars is $100 or $1,000.

Don't consider owning precious metals and rare coins as ways to try to make a huge profit. Instead, think of them as insurance against the loss of value of your paper assets.

If you do not already have between 10-25% of your net worth in hard assets, contact us today.

Collector U.S. Gold Coins Shoot Upward

Three months ago, I noted that U.S. $20.00 Gold Double Eagles and other U.S. Gold Coins were soft. I also thought the softness was temporary. At the time I had no idea that my opinion would turn out to be an extreme understatement.

At the beginning of September, you could have purchased a Choice Mint State-63 $20.00 St Gaudens for $595; today it is $760! The MS-64 $20.00 Liberty that was $1,250 three months ago is now $1,850!

The 8-coin MS-63 U.S. Gold Type Set has jumped 24%, from $6,350 to $7,875. In MS-64 grade, prices are up over 37%!

I expect prices to keep rising as demand keeps outstripping supply. I think the largest increases will come from the denominations below $20.00, just as we have seen in past booms. The $1.00, $2.50, $3.00, $5.00, and $10.00 coins have much smaller supplies in collectible grades than the Double Eagles, the coins more likely stored in bank vaults for reserves in the old days.

Even though prices today are up significantly from September, they are still just a fraction of their prices back in mid-1989. Although there is greater risk, there is also the potential for greater appreciation than the rise in the gold price.

Russian Government Official Alludes To Gold Price Manipulation

For almost six years, the Gold Anti-Trust Action Committee (GATA) has been uncovering evidence that the price of gold has been manipulated since at least the mid-1990s by a cartel consisting of bullion banks like Goldman Sachs, Citigroup, and JP Morgan Chase, and U.S. and world government agencies such as the Federal Reserve System, the Exchange Stabilization Fund, the International Monetary Fund, Deutsche Bank, and the Bank for International Settlements.

An early lawsuit by an individual against this alleged cartel was dismissed from court because of sovereign immunity and because the individual was not the proper party to sue.

Another national coin dealer, Blanchard Coin, then filed suit against JP Morgan Chase and Barrick Gold (one of the world's largest gold mining companies). Not only has this suit not been dismissed by the court, it has now progressed to the discovery stage. The suit is progressing so well that Blanchard has now filed a class-

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action suit on behalf on gold traders who have lost money on gold since 1998.

Government officials around the world have gone to great lengths to avoid discussing this alleged manipulation. But a chink in the armor of this unified front came out recently.

The world's largest gold exchange is the London Bullion Market. At the London Bullion Dealers Conference in Moscow on June 4, the keynote address was given by Oleg V. Mozhayskov, the Deputy Chairman of the Central Bank of Russia. His speech was delivered in Russian.

Since his speech included a reference to GATA, the conference sponsor and those in attendance refused to release his speech.

Finally, Mozhayskov personally arranged for the speech to be translated into English. The most interesting part of his speech was revealed at the New Orleans 2004 Investment Conference a few weeks ago.

The most shocking part of his speech is "The Gold Anti-Trust Action Committee . . . started a number of lawsuits against the U.S. government, accusing it of organizing an anti-gold conspiracy. They believe that with the assistance of a number of major financial institutions, some senior officials have been manipulating the market since 1994. As a result, the price dropped below US$300 an ounce at a time when it should, if it had kept pace with inflation, reached US$740-760."

For Mozhayskov to even mention GATA or the lawsuits implies that, at a minimum, there is substantial support for the charges. For him to give credence to GATA in this venue would destroy his career—unless the charges happen to be true!

Other research by GATA indicates that the supposed one billion ounces of official gold reserves may be overstated by as much as 400 million ounces. The rest might have been surreptitiously liquidated in an effort to hold down gold prices. If any amount of gold, even just a few million ounces, turn out to have been devoted to such activity, I would look for a major jump in the gold price.

Gold analysts such as UBS Paine Webber suspect that central banks may not come up with even 8 million ounces of gold for annual sales to fulfill the 16 million ounce quota under the renewed agreement. One could infer that the gold shortage may be much larger than officially acknowledged. That would be just one more reason to add to your gold holdings.

The Wall Street Journal Covers Rare Coins

Today's issue of *The Wall Street Journal* has a large article discussing the developing boom in the rare coin market.

Titled "Wealthy Investors Add Coins To Portfolios," it describes how some investors are seeking diversification from their paper assets by purchasing rare coins.

While I do not agree with all opinions in the article, it is significant that the *Journal* even did this article.

I have noted over the years that this publication downplays precious metals and hard assets. For the *Journal* to devote so much space to rare coins, especially in a favorable a light as in this article, is a strong sign of the outright expansion of the rare coin market. This article just made the rare coins you already own a little more valuable.

Gold and Gold Coins

Gold finished today at 454.00, up $29.50 (6.9%) from four weeks ago. That was the highest gold close since it was $454.25 on June 17, 1988!

The continuing rise in the price of gold has spurred a lot of liquidation—and a lot of purchasing by investors. While some people need cash, others look at the falling U.S. dollar and are worried that the cash they have today will be worth less tomorrow.

To get the most gold for your money, the recommended low premium issues remain the Austria **100 Corona** (3.5%), South Africa **Krugerrand** (3.7%), and U.S. **American Arts Medallions** (3.7%). Of the smaller coins, the British **Sovereign** (7.6%), French **20 Franc Rooster** (8.8%), and Swiss **20 Francs** (8.8%) are some of the best buys.

While I like many of the **Common-Date U.S. Gold Coins,** I am even more excited by the potential with **Better-Date U.S. Gold Coins**. You can obtain many of these rarities (if you can find them, that is) at close to the prices of common issues, but pay little more. This month we feature **Six Spectacular $5.00 Liberty Rarities** that are all the finest specimens of these dates that we have ever handled.

We also found some great bargains in world gold coins. We acquired our first group of **Mint State 1918-I India Sovereigns** in several years. After we quickly sold an offering of 1983 British Sovereign Proof Sets a few months ago, we have diligently sought other groups. No luck so far, but we did come up with a variety of one-of-a-kind and few-of-a-kind **British Gold Coin Bargains**. See the enclosed flyers.

Silver and Silver Coins

Silver closed today at 8.02, up a whopping 88 cents (12.3%) in the last month!

There is some evidence of tightening silver supplies. The premium at which silver trades in the London market (the world's largest silver market) above New York market is up to five cents after being almost exactly the same price for most of the past year.

As I have explained in the past, silver traded in London must be refined to .9999 purity, while that in New York must only be refined to .999 purity. Thus, silver traded on the American exchanges cannot be sold for delivery on the London exchange until after it is re-refined and transported to London. When a physical silver supply squeeze is on, the London silver price often rises against the New York price until it is profitable to pay the cost of refining and transportation, somewhere around ten cents per ounce.

A rising London/New York premium is the most important of my two most telling indicators of a coming sharp rise in the price of silver. The majority of silver consumed by the world's industrial fabricators is purchased in London. When supplies become tight, its price not only tends to rise, but it also rises even further above New York levels. If the London premium holds at five cents or higher over the next month, I would take that as a clear sign of an impending surge in silver prices, even if my other indicator does not concur.

When the premium on U.S. **90% Silver Coin** (1.3%) is above 2%, it is not profitable for refiners to increase the supply of physical silver by melting the coins. The 90% Coin premium was at or above 2% for much of the past

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month, falling below that just as silver rose sharply. If there is a genuine shortage of physical silver on the market, the 90% Coin premium will likely go back above 2%.

If the London premium stays at least five cents for the next couple of weeks and the 90% Coin premium goes back to 2%, the more adventurous investors may wish to jump into a larger silver position for a possible short-term play.

Common-date Mint State Morgan and Peace Dollars continue their steady rise, along with other numismatic silver coins. Almost everything in Choice Mint State-63 and higher quality is up in the past month. We got a special buy on **Mint State 1921 Morgan Dollar Rolls** and pass the savings on to you.

Better-Date Morgan and Peace Dollars are rising even faster. Good news—we acquired the largest stock of **Superb Gem Mint State-66 1901-O Morgan Dollars** in our history! Please see our offer.

Platinum, Palladium Markets In Surplus

Platinum hit a 24-year high price of $927 on April 12 this year. The surge was almost entirely caused by paper trading rather than physical demand. Paper traders anticipated that the economic recovery in the U.S. along with generally strong markets for all metals would push platinum even higher.

Then reality set in. Higher platinum prices led to a sharp decrease in platinum demand for jewelry purposes. While jewelry manufacturing accounted for 38% of all physical platinum in 2003, analysts forecast that it will only use 34% of platinum in 2004 and fall further next year

Higher prices are having an impact on increasing supplies, expected to be up 3.7% this year over 2003 levels. In contrast, physical demand is projected to increase only 0.8%. With this shift, platinum supplies now almost exactly match demand, following five years of significant supply shortages.

In 2005, look for the platinum market to again return to a surplus of supply. Anticipating this, analysts at Johnson Matthey forecast that platinum prices in the next six months will not appreciate and could fall as low as $760.

The high prices of palladium encouraged much higher levels of production. This market has been in a surplus since 2000. For 2004, look for supply to total 7.16 million ounces, up 10% from 2003. Demand is up 13.5% in 2004 compared to last year, but that still leaves physical demand at only 6.14 million ounces.

Total palladium demand is still down more than one-third since 1999, with automotive usage down 45% (from 5.685 million ounces down to only 3.125 million ounces), electronics usage down 54% (from 1.99 million ounces to only 915,000 ounces), and even dental demand fell 24% (from 1.11 million ounces to 840,000 ounces).

In the 1990s, Russia accounted for about 2/3 of all palladium supplies, creating a politically treacherous market. Higher prices have spurred production elsewhere, with Russia now accounting for just 46% of worldwide supplies.

With the continuing surplus of supplies, Johnson Matthey projects that palladium prices through mid-2005 will be within the $160-250 range.

Those wishing greater detail on the platinum and palladium markets can view or download the *Platinum 2004 Interim Review* published by Johnson Matthey at www.platinum.matthey.com/publications.

As the gold and silver markets both have more than a decade-long huge shortage of supply, it seems to me a lot more sensible to hold those metals in your hard asset portfolio than platinum or palladium. If you wish to speculate with either of the latter two metals, I recommend conservatively that they be just a small amount of your hard asset holdings.

The Month

Gold Range	$29.50	6.9%
Net Change	+29.50	
Silver Range	.88	12.3%
Net Change	+.88	
Gold/Silver Ratio	56.6	
Net change	-2.9	
Platinum Range	50.00	6.0%
Net Change	+50.00	
Platinum/Gold Ratio	1.93	

Date	Gold	Silver	Platinum
Nov 03	424.50	7.14	827.00
Nov 04	429.75	7.36	846.00
Nov 05	433.25	7.49	849.00
Nov 08	432.50	7.48	846.00
Nov 09	435.25	7.52	847.00
Nov 10	434.00	7.41	847.00
Nov 11	434.75	7.46	853.00
Nov 12	437.75	7.60	872.00
Nov 15	436.50	7.55	875.00
Nov 16	440.00	7.58	867.00
Nov 17	444.50	7.66	873.00
Nov 18	442.50	7.54	860.00
Nov 19	446.75	7.60	858.00
Nov 22	448.50	7.57	853.00
Nov 23	447.50	7.55	853.00
Nov 24	449.25	7.60	859.00
Nov 25	closed		
Nov 26	452.50	7.68	861.00
Nov 29	453.50	7.77	861.00
Nov 30	451.25	7.72	868.00
Dec 01	454.00	8.02	877.00

London Silver Market Premium To New York Silver Market = 5¢

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

A Holiday Wish

LCS enjoyed its best year since the bullion boom of 1979-1980. With some of the highest gold, silver, platinum, and rare coin prices in a long, long time, many of you have also had a prosperous year.

Although we can't guarantee it, we anticipate that 2005 will be even more exciting than 2004. We hope you all will be along for the ride.

It is our privilege to serve you—the best customers in the world!

Thank you for your patronage.

We wish you all a holiday season filled with health and the wealth of family and friends. May you be rich in the wonderful things on which you cannot put price tags.

Merry Christmas
Happy New Year

David, Bob, Janet, Dany, Pam, Charlie, Barb, Paul, Tom, Allan, Pat

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