Liberty's Outlook

Volume 11 Issue 12 Liberty Coin Service's Monthly Review of Precious Metals and Numismatics November 30, 2005

Gold Nears $500, Silver Tops $8, Platinum Close To $1,000!

- **Gold Hits 22-year High, Silver An 18-year High, and Platinum A 25-Year High—Is The Next Major Bullion Boom Underway?**
- **Huge Central Bank Gold Purchases Looming**
- **U.S. Government Inflation And IMF Gold Deceptions Revealed!**

The prices of gold, silver, and platinum have roughly doubled over the past few years. Those who took our advice to build their gold and silver positions have profited handsomely.

This week, gold reached its highest closing price in U.S. markets since February 18, 1983. Silver closed at its highest level since August 4, 1987. You have to go all the way back to 1980 to find the last time that platinum traded near $1,000.

Questions—

Why have precious metals moved up so much in the past month?

Is this a temporary spike that will reverse?

Or is this just an appetizer for soaring gold and silver prices we might see in 2006 or 2007?

Answers—

Several recent developments all point to growing demand or to declining supplies of precious metals.

In my judgment, there is little potential for a significant decline of 10% or more in gold and silver prices.

There is a good possibility that we have already started the massive jump in precious metals prices similar to what we experienced in 1979-1980.

Why Are Precious Metals Rising Now?

The gold and silver markets have both experienced long-term supply shortages. The silver market has been in a deficit every year since the beginning of 1990; the gold market has been in a shortage nearly as long. Newly mined metal, recycled supplies, and government sales have not come close to covering industrial and investment demand.

The platinum and palladium markets don't have long-term shortages. However, high-tech industrial demand for both metals is growing rapidly.

Thus, a solid foundation has existed for gold and silver prices to rise over time. Even higher prices for platinum and palladium make sense if you think that the continuing increases in supply cannot be sustained.

This old information, by itself, would not be sufficient for the accelerating price rises. However, unexpected new and emerging developments have provided the sparks needed to start the fire.

Gold: At a conference two weeks ago, an official of the Russian central bank proposed that the bank increase its gold holdings from 5% to 10% of total reserves. That would require the acquisition of 500 tons (over 16 million ounces) over the next two years or so. Eight days ago, Russian president Putin publicly endorsed this plan. The November 23 issue of *The Moscow Times* on page 5 shows a photo of Putin holding a large gold bar as he made this announcement.

This was the largest spark. On top of this are continuing revelations that other central banks are buying or may be adding to their gold reserves.

Argentina's central bank has already made purchases. South Korea's central bank is now purchasing some. South Africa's central bank officials announced that they may add to their gold reserves.

Last week, one of the Chinese state press outlets ran an essay urging that the China central bank add to its gold reserves on the order of 500 tons. If the pattern of recent years is followed, this means that China has already made such purchases and is preparing to disclose them.

Year-To-Date Performance

As of November 29, 2005

Asset	*Return*
Palladium	+42.2%
Silver	+22.6%
Platinum	+15.5%
Gold	+14.1%
S&P 500	+3.8%
NASDAQ	+2.6%
Dow Jones Indust Avg	+1.0%

Between Russia and China alone, the size of the central bank purchases could match or exceed all central bank sales over the next two years. Thus, instead of being a net major gold supplier as has been true for the past several years, central banks are likely to be net buyers of gold. This will make shortages even larger in coming years.

One implication of this strong Russian and Chinese demand is that other central banks may be prompted to stop selling and maybe even to add to their gold reserves simply to support their own currencies.

Another new development was the announcement by the Board of Governors of the Federal Reserve System after the close of markets on November 10, that it would cease reporting the M3 monetary aggregate effective March 23, 2006.This is the broadest measure of domestic money supply, which includes all items in the M2 definition plus jumbo certificates of de-

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posit, repos, and some forms of Eurodollars.

M3 is a key leading indicator of both economic activity and of inflation. The Fed did not explain the reasons during the announcement, but its public affairs office stated, “M3 does not appear to convey any additional information about economic activity that is not already embodied in the M2 aggregate. The role of M3 in the policy process has diminished greater over time. Consequently, the costs of collecting the data and publishing M3 now appear to outweigh the benefits.”

In October, the M2 money supply report was $6.6 trillion. The M3 money supply was $10.1 trillion. It seems unlikely that shifts involving this $3.5 trillion in assets would be unimportant.

The discontinuation of the M3 reports may be an attempt by the U.S. government to hide rising inflation.

Since this spring, the M3 figure has grown at a much faster rate than M2. For most of 2005, M2 has been growing at around the 4% annual rate, while M3 has been rising at about 8%.

If you take the M3 money supply figures and back out the M2 components, one analyst found that the result has a high correlation with changes in the Consumer Price Index (CPI).

The same analyst also finds that using the inflation-adjusted M3 figures is one of the most reliable indicators of coming recessions and generally is one of the best leading indicators of future economic activity. (By the way, if this is accurate, the inflation-adjusted M3 figure generated a coming recession signal a few months ago along with a signal of a sharp increase in inflation).

Just the act of discontinuing the reporting of the M3 money supply is a sign of possible inflation problems. Even if nothing else changes, that would make professional traders nervous about holding paper assets and encourage demand for hard assets like precious metals.

Silver: The biggest news affecting silver is the wider dissemination of information about the Silver Users Association opposition to the proposed creation of an Exchange Traded Fund (ETF) to trade silver.

A subsidiary of Barclay’s Bank filed a registration with the Securities and Exchange Commission (SEC) to create the first silver ETF to be listed in the U.S. on the American Stock Exchange, to operate along the lines of the existing gold ETFs.

In order for this silver ETF to begin operations, it would initially purchase 130 million ounces of physical silver. That amount is greater than all of the silver registered on the New York COMEX. It is such a huge quantity to move off the market at one time, that all parties agree that the price of silver could skyrocket.

When Warren Buffett’s Berkshire Hathaway purchased 129.7 million ounces of silver in 1997, that led to a 30% rise in the price of silver in one month. This time around, the Silver Users Association, whose membership is made up of manufacturers who use significant amounts of silver in their products, believes that the price increases would be much greater.

If this ETF went into business, there could be an immediate shortage of physical silver on the market. Within days, what silver could be obtained would certainly cost more than it has in the past 20 years.

For years, the Silver Users Association has tried to maintain that there was plenty of physical silver around, which would justify a relatively low price for the metal. Their contention was that analyses such as appear annually in this newsletter that show tight silver supplies were wrong. Now, by issuing this new analysis, the Silver Users Association is contradicting their past position and admitting that the supplies of physical silver are limited.

As an aside, in order to prevent someone from directly trying to corner the existing COMEX silver inventories, the exchange has specific limits on the amounts of contracts on which any one buyer can take delivery in a year. By preventing buyers from taking any significant quantity of silver off of the exchange, it is possible to pretend that there is more silver available than there really is. The silver ETF is the perfect way to circumvent this limitation.

The gold ETFs have already absorbed over 8 million ounces of gold, with a current value of around more than $4 billion. At current prices, that dollar amount would purchase almost one year’s worldwide silver mine production.

A silver ETF could be more popular than those for gold because it eliminates two problems with owning a large quantity of silver—the heavy weight of it and the space it occupies. The shares in the gold ETFs each represent one-tenth of an ounce of physical gold. Presumably, each share of a silver ETF would represent an ounce of silver.

Even if the objection filed with the SEC by the Silver Users Association is successful in blocking the silver ETF from going into operation, the truth has now been acknowledged by insiders that silver inventories are much smaller than previously alleged.

The Exchange Traded Fund for precious metals seems to be an idea whose time has come, though I still recommend direct possession of physical silver for your own protection. If this particular registration is turned down by the SEC, there will likely be others in the future.

Throughout history, perhaps 40 billion ounces of silver has been extracted. Virtually all of it is in forms such as industrial products that are not recoverable at just about any price. At most there might be one billion ounces of silver inventories that could be recycled at prices under $50. The eventual price explosion that I have anticipated for several years may be coming soon.

Incidentally, industrial buyers of silver had cut back on their purchases of silver once it climbed over $7.50. They were hoping for a swing back to lower levels. They will not be able to suspend their purchases of physical silver much longer before they have to buy some to avoid production shutdowns, no matter the price. If they are forced to purchase silver at current price levels, their entrance to the market could help push silver prices even higher.

Platinum and palladium: As I said earlier, platinum and palladium have been supported by rising physical demand, even though supplies have been increasing right along with them. Increasing gold and silver prices lend psychological support to platinum.

For palladium, the Royal Canadian Mint this month debuted a 1 ounce palladium Maple Leaf coin. The 2005 issue will have a mintage of 40,000, which is not low.

However, it is the only palladium coin in current production at any major mint. The purchase of 40,000 ounces by itself would not be enough to rock the market upward (this market still has a surplus of physical supply). Still, speculators have jumped into the palladium market, hoping that the huge price difference between platinum and palladium might lead to some increased use of palladium in place of platinum.

The appearance of the Palladium Maple Leaf has made the cost of physical palladium less onerous for small investors, who can now acquire this metal for a premium of 10% or less. The buy/sell spreads are closer than they were for ingots.

However, because the physical palladium market is much smaller than for the other precious metals, and it is a market rife with speculative activity, I do not recommend owning palladium. You may purchase one or two coins as something of a curiosity, but it is a risky market.

Summary: The new factors pushing up the prices of gold and silver are not likely to stop or disappear. If anything, they may help accelerate even higher prices in

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the near future.

Where Are Precious Metals Prices Headed?

I don't like to be sensationalist and consider it poor judgment to make investment decisions in a rush, so I will try to mute my new market forecasts:

Gold: I think that there is a 75% probability that gold will reach $600 by the end of 2006, a 50% chance that it will top $700, and a 25% chance it could reach $1,000. Even though these numbers might seem fantastic, I believe I am being conservative.

Silver: I expect silver to reach $10.00 by the end of March 2006. I give it a 75% chance that it will reach $15 by year end, and a one-third chance that it will pass $20.

Platinum and palladium: I don't see either metal deserving much of further rises in prices simply because there are not shortages of physical metal. My crystal ball is too cloudy to predict prices for either of these two metals.

Besides, with such attractive factors for gold and silver, there really isn't any need for most investors to poke into riskier markets.

Timing: Again, I apologize for maybe coming across as scaring you into action, but there is a very real possibility that we may already be on the upward slope of a breakout market. It is entirely possible that waiting a month to purchase your gold or silver may cost you some profits.

We all will know for sure later how much breathing time we had at the end of 2005 before prices shot upward (and, of course, there is always the possibility that somehow prices stay at current levels or even drop), but I would not be comfortable waiting to add to your hard asset holdings. Today might be better than next week.

Precious metals prices tend to drop briefly as we get close to the next meeting of the Federal Open Market Committee. It then takes a few days to a week or so for prices to return to "pre-meeting" levels. Their next meeting is December 13. Don't be surprised if there is some profit taking in mid-December that might bring on lower prices for about a week. If so, that could be your best buying opportunity for at least the next few years.

Deciding How Much Hard Assets To Own

I view the ownership of precious metals to be akin to insurance. Owing gold and silver helps protect you from calamities hurting the value of your paper assets like stocks and bonds. As such, it should only make up a portion of your net worth. How much? That answer varies by each persons stage of life and financial circumstances. Here are some general guidelines.

First, determine your approximate net worth by adding up all of your assets and subtracting your liabilities. Next, apply the relevant percentage to your net worth to your target for your holdings of precious metals and rare coins.

Here's an example. If you have assets of $250,000 and liabilities of $100,000, your net worth is $150,000. If you would like to put 15% into hard assets, that target is $22,500. Up to $2,250 could be allocated to rare coins, $8,250 to gold, and $12,000 to silver.

<u>For those averse to owning hard assets</u>—invest only 5-10% of your net worth into gold or silver bullion priced products. Shoot for about half of this in gold and half in silver.

<u>For moderate investors</u>—put 15-20% of your net worth into precious metals and rare coins. Allocate no more than 10% of your hard asset total to rare coins, then about 60% of the remainder to silver.

<u>For aggressive investors</u>—devote 25-33% of your net worth into precious metals and rare coins. Allocate about 25% of this total to rare coins, 25% to gold, and 50% to silver.

Please modify these guidelines to fit your personal circumstances.

IMF Deception On Central Bank Gold Holdings Revealed! BIS Also Reports Interesting Numbers!

In October 2001, Canadian Andrew Hepburn wrote to the International Monetary Fund (IMF) to ask why the IMF insisted that members record swapped gold as an asset (part of their reserves) when a legal change in ownership had occurred.

The reply he received from the IMF stated, "This is not correct: the IMF in fact recommends that swapped gold be excluded from reserve assets.

The website of the central bank of the Philippines contradicts this information:

"Beginning January 2000, in compliance with the requirements of the IMF's reserves and foreign currency liquidity template under the Special Data Dissemination Standard (SDDS), gold swaps undertaken by the BSP with non-central banks shall be treated as collateralized loans. Thus, *the gold under the swap arrangement remains part of the reserves* and the liability is deemed incurred corresponding to the proceeds of the swap." (italics added)

The European Central Bank and other central banks confirm that they also count gold out on loan as gold in their vaults.

So, the gold reported as being in government vaults is not necessarily there!

An even more curious bit of data is the gold derivatives market. Over the past four years, the gold mining companies have closed out almost half of their presold gold positions. One might expect that gold derivative contracts would likewise decline.

In reports released this summer by the Bank for International Settlements (BIS) the value of the over-the-counter gold derivatives of major banks and dealers in the G-10 countries rose from $318 billion at June 30, 2004 to $369 billion at December 31, 2004.

The simplest explanation of the increase of gold derivatives at the same time that the gold mining companies are reducing their hedge contracts is that it represents new call options written by central banks in an effort to hold down (manipulate) gold prices. Since central banks now own less physical gold to loan than they used to have, the next best gimmick they could use to influence the market is to sell these paper promises to deliver gold.

The rising demand for physical gold and for gold held by the gold exchange funds could bring down this whole paper scheme whereby central banks are pretending to supply gold (that they don't actually have) to the market to help hold down prices. If this system cracks, gold could be at $2,000 almost overnight.

Don't get caught short.

Gold and Gold Coins

Gold closed today at $494.50, up a whopping $31.75 (8.8%) from the beginning of this month!

Gold closed yesterday in the U.S. at $499.00, its highest close in almost 23 years. Gold had earlier traded above $500 in Asian markets.

Although there has been an increase in liquidation of physical gold, there has been a far larger increase in the demand to buy gold, much of it from novice purchasers.

Also noteworthy is that the increase in selling is nothing like we saw in years past as gold neared or reached threshold levels. It seems obvious that owners sense that their gold might be even more valuable in the near future than it is today and they are waiting for higher prices.

If you are looking to get the most gold for your money, the best low-premium buys are still the Austria **100 Corona** (3.4%) and U.S. **American Arts Medallion** (3.6%). Continuing strong demand for the South Africa **Krugerrand** (3.9%)

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means that supplies are still tight, with the premium higher than it was two months ago.

Among smaller coins, the British **Sovereign** (7.6%) is a low-cost favorite. It is perhaps the most widely traded gold coin around the world, though not in the United States..

Demand for the U.S. **American Eagle** (5.6%) is still so strong that its premium remains higher than normal. Even though the premium dropped for the Canada **Maple Leaf** (4.4%), it still has fairly spotty demand.

Canada is just now releasing 1 oz Maple Leafs made to .99999 purity standards, the purest of all bullion issues. It is more gimmick than substance as the most extra gold one might receive over a coin that is only .9999 pure is currently worth about 4-1/2 cents.

The roaring market for **Common-Date U.S. Gold Coins** over the past few months has largely slowed. A couple prices have even fallen from last month, though the overall trend is up.

What we typically observe in markets where the Common-Date U.S. Gold Coins run up quickly is that **Better-Date U.S. Gold Coins** tend to lag behind. Now that the Common-Dates are taking a breather, I think the Better-Date issues are due to catch up. This month, our feature offer of **Better-Date U.S. Gold Coins from the 1870s and 1880s** include the very coins that now look underpriced relative to their more common pieces. See our offer for details.

When we saw that the **Modern $5.00 Gold Commemoratives in Mint State and Proof Condition** did not rise with the increases in Classic U.S. Gold Coins, we quietly started to accumulate them. Now that the spot price of gold is starting to move, you can actually own these coins at pretty close to a bullion price. Since these coins have far smaller mintages than the $5.00 Liberties and $5.00 Indians and you can own them for prices less than you would pay for these earlier coins in circulated condition, we see little down-side risk and a whole lot of appreciation potential. Check out our brochure.

Silver and Silver Coins

Silver finished today at $8.28, up 75 cents (10.0%) from four weeks ago.

We have not seen huge increases either in the liquidation or purchase of physical silver in the past month. Activity is higher, but not dramatically.

The low premium for U.S. **90% Silver Coin** (2.2%) continues to make it the best value in physical silver. In addition to the lowest cost per ounce of silver content, it has the greatest divisibility (a silver dime contains about 1/14 oz of silver), and is also the most liquid. The **100, 10, and 1 Oz Ingots** (5.1-5.9%) cost more but have a small advantage of occupying slightly less space.

Although U.S. **40% Silver Coin** (3.2%) may seem attractive for its low premium and high face value, I do not recommend it. The high non-silver content means that postage costs are higher, and it takes more storage space for the same quantity of silver content. In early 1998, when Warren Buffett squeezed silver short-sellers and a lot of silver was liquidated when the spot price topped $7.00, the refiner Handy & Harmon completely stopped accepting 40% coin so that they could concentrate on refining purer forms of silver. Thus, 40% Coin may have liquidity problems that the purer silver forms do not have.

Demand has steadied for **Common Mint State Morgan and Peace Silver Dollars**. If silver climbs above $8.50, expect to see another round of feverish buying hit this sector of the rare coin market.

As I have said repeatedly this year, demand for any kind of numismatic silver coin lots, U.S. or domestic, is so strong that it is almost impossible to find anything.

Fortunately we were able to pick up a group of **Hand-Enameled 2000 Silver Eagle Dollars** at such a low price that we can offer them for less than other dealers charge for the regular Mint State 2000 Silver Eagle Dollars. Please see our enclosed flyer.

The Month

Gold Range	$43.00	9.3%
Net Change	+31.75	
Silver Range	.82	10.9%
Net Change	+.75	
Gold/Silver Ratio	59.7	
Net change	-1.8	
Platinum Range	66.00	7.1%
Net Change	+39.00	
Platinum/Gold Ratio	1.97	

Date	Gold	Silver	Platinum
Nov 02	462.75	7.53	933.00
Nov 03	460.00	7.59	934.00
Nov 05	456.00	7.55	927.00
Nov 07	458.75	7.58	927.00
Nov 08	460.75	7.60	936.00
Nov 09	466.00	7.65	948.00
Nov 10	466.50	7.68	958.00
Nov 11	468.25	7.74	964.00
Nov 14	468.00	7.76	968.00
Nov 15	468.00	7.76	967.00
Nov 16	478.00	7.98	980.00
Nov 17	486.00	8.08	973.00
Nov 18	485.25	8.05	977.00
Nov 21	488.00	8.12	973.00
Nov 22	493.00	8.17	972.00
Nov 23	492.25	8.12	976.00
Nov 24	closed		
Nov 25	closed		
Nov 28	498.25	8.35	992.00
Nov 29	499.00	8.29	993.00
Nov 30	494.50	8.28	972.00

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.

A Holiday Wish

LCS has already enjoyed its highest sales volume year since the bullion boom of 1979-1980, and the year isn't over yet!

With the prices of gold, silver, platinum, and rare coins at their highest levels in a long time, many of you have also had a prosperous year.

The new year 2006 will likely be an even more exciting market for precious metals and rare coins. We welcome you 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

Patrick G, David, Bob, Janet, Pam, Charlie, Barb, Paul, Tom, Allan, Pat

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