Liberty's Outlook

Volume 12 Issue 12 Liberty Coin Service's Monthly Review of Precious Metals and Numismatics November 29, 2006

On Friday, November 24,2006, at a conference in Beijing, China, Wu Xiaoling, the Deputy Governor of the People's Bank of China, said,

"The exchange rate of the U.S. dollar . . . is going lower . . . ."

It's not "too late" to buy your gold and silver!

If you read the headlines in the daily newspapers, you will always be hopelessly behind the times trying to maximize the value of your assets.

You don't get the best results by waiting for the deputy governor of the Chinese central bank to announce that the value of the dollar is going lower. Instead, the time to protect yourself was seven months ago when the headline of this newsletter read "It's Time To Bail Out Of The U.S. Dollar", if you had not already done so earlier.

In the past week, the local newspaper in our area seems to have discovered that the U.S. housing market is in a slump. If you were looking to sell a residence, you would certainly have done better over a year ago when I warned you about the coming slump.

You also don't maximize your results by focusing only on what people say. You have to interpret what they say in the context of their motives, their past track record of accuracy (or lack thereof), and especially what they are actually doing.

As I have explained before, the Chinese government does not announce their intentions in advance. Invariably, the Chinese are already doing or have done what they announce they are contemplating.

So, you can be pretty sure that the Chinese government has already started unloading some of the $700 billion hoard of U.S. dollar reserves included in that nation's central bank's $1 trillion of reserve assets.

In response to this announcement, the value of the dollar fell promptly. Gold and silver, which had already been climbing, shot up even further.

The next day after this announcement, US vice president Cheney met with the king of Saudi Arabia. The stated purpose of the meeting was for the U.S. to request Saudi assistance in quelling troubles across the Middle East. But, I can just about guarantee that Cheney brought up the issue (begged?) for Saudi assistance in propping up the value of the dollar.

It is also curious that the U.S. government announced last week that it had arranged a quick (in bureaucratic terms) meeting for next February where Treasury Secretary Paulson, Federal Reserve Chair Bernanke, and Commerce Secretary Gutierrez will travel to China to meet with top officials to

47, 23, and 11 Months Results

As of November 28, 2006

Precious Metals	*Vs 12/31/2002*	*Vs 12/31/2004*	*Vs 12/30/2005*
Silver	+183.5%	+99.9%	+54.3%
Platinum	+89.5%	+32.8%	+17.8%
Gold	+83.3%	+45.6%	+23.1%
Palladium	+36.3%	+74.6%	+23.8%
US Dollar vs Foreign Currencies			
Brazil Real	-38.4%	-17.9%	-6.6%
Canada Dollar	-28.4%	-5.7%	-2.8%
Australia Dollar	-28.2%	-0.2%	-6.4%
Chile Peso	-25.6%	-4.9%	+3.1%
New Zealand Dollar	-23.0%	+5.8%	+0.5%
South Korea Won	-21.5%	-10.1%	-7.8%
Euro	-20.6%	+2.8%	-10.3%
Great Britain Pound	-17.5%	-1.7%	-11.9%
South Africa Rand	-17.0%	+26.2%	+12.5%
Thailand Baht	-15.9%	-6.4%	-11.4%
Switzerland Franc	-13.0%	+5.5%	-8.4%
Singapore Dollar	-10.7%	-5.1%	-6.8%
India Rupee	-7.1%	+3.1%	-1.0%
Taiwan Dollar	-5.7%	+3.1%	-0.3%
China Yuan	-5.3%	-5.3%	-2.8%
Malaysia Ringitt	-4.2%	-4.2%	-3.7%
Japan Yen	-2.2%	+13.4%	-1.6%
Hong Kong Dollar	-0.3%	+0.05%	+0.3%
Mexico Peso	+5.8%	-1.0%	+3.7%
Stock Market Indices			
Frankfurt Xetra DAX	+117.2%	+47.6%	+16.2%
Russell 2000	+102.3%	+18.9%	+15.1%
Tokyo Nikkei 225	+84.8%	+38.0%	-1.6%
NASDAQ	+80.6%	+10.9%	+9.4%
S&P 500	+57.6%	+15.3%	+11.1%
London FT 100	+52.9%	+25.1%	+7.2%
Dow Jones Ind Avg	+45.5%	+12.6%	+13.2%
Numismatic Coins			
MS-65 Morgan $	+74.4%	+0.0%	+0.0%
MS-63$20 St Gaudens	+61.9%	+30.8%	+6.3%
US MS-63 $20 Liberty	+47.5%	+36.7%	+2.5%

Inside this issue:

(Continued from page 1)
discuss increasing U.S. exports to China.

I suspect that the real reason for this meeting is to try to persuade (reason, cajole, threaten, beg, bribe) Chinese officials to slow down the pace at which they are unloading U.S. dollars back onto the world market. Effectively, that means asking the Chinese to sacrifice some of the value of their reserves and allowing the growing number of other nations to cut back on their U.S. dollar holdings first.

The Chinese appear to be backpedaling somewhat. Yesterday a spokesman for the Chinese central bank said, "Please take our vice governor Wu Xiaoling speech as a reference."

No matter how patient the Chinese may be in unloading their dollars (and you can be sure that any agreement to slow down would be won only if there were other concessions, probably secret ones, from the U.S. government), it is too late to stem the sinking of the U.S. dollar.

Just yesterday, S. S. Tarapore, the former deputy governor of India's central bank, while speaking at a foreign exchange conference in Mumbai, said that the Indian government would benefit from increasing the percentage of gold in that nation's reserves. As India's reserves have grown in recent years, the Reserve Bank of India (RBI) has not purchased gold to keep pace. Today, only 3.6% of total reserves are held in gold. Tarapore suggested that if the RBI cautiously increased their gold holdings to 10% of total reserves, that would mean an expenditure of more than $10 billion for 16 million ounces. Such an acquisition would almost certainly come at the expense of the value of the U.S. dollar.

When the government of the world's largest gold-consuming nation (India) and the nation that may become the largest gold consuming nation in a few years (China) are both publicly discussing buying gold and unloading dollars, you are no longer talking about if the value of the U.S. dollar is going to fall. Instead, you are talking about how fast. And, although it is sad to mention, it also raises the risk of the failure of the U.S. dollar as a circulating currency.

Yesterday, Barry Ritholtz, the chief market strategist for Ritholtz Research & Analytics in New York City, was interviewed about the recent drop in the U.S. dollar. When he was asked if the recent downside move might be signaling a possible collapse of the dollar, he said, "Not yet."

Ritholtz then went on to state that most analysts had previously considered the collapse of the U.S. dollar to be a low probability event. He went on to say, "The probabilities have increased of a major dollar correction, or even of a collapse."

When I was growing up, I never thought there was a remote possibility that the U.S. dollar could fail. To hear an analyst say "not yet" instead of "not a chance" speaks volumes about the government's mishandling of the dollar.

Note: There wasn't room for Xiaoling's entire quote in the headline. So to keep anyone from wondering what was left out, here is the entire sentence: "The exchange rate of the U.S. dollar, which is the major reserve currency, is going lower, increasing the depreciation risk for East Asian reserve assets."

Watch Out For Money Supply Increases

By the way, keep an eye out for sudden increases in the U.S. money supply. According to Federal Reserve data, the amount of funds in savings deposits (not seasonally adjusted) at commercial banks increased from 2.7445 trillion on October 30 to 2.8875 trillion on November 6. This huge $143 billion (5.2%) increase in one week could indicate one or more sizeable chunks of U.S. dollars and dollar debt coming back to the U.S. The government might try to bury such transactions in a myriad of statistics, but I think there are much more experienced analysts who would catch on to such huge one-week increases in the money supply.

What Does This Mean?

In recent years, I have advocated owning gold on its sound fundamentals of long-term supply shortages.

The shortages have become more acute as mines rush to close out their pre-sold gold contracts instead of selling all of their new production onto the market.

This year, central bank gold sales have fallen sharply, except that the price of gold remained strong in November when there was a flurry of central bank sales.

Now is the time to take gold (and silver) a lot more seriously. Don't just think about having 5-10% of your net worth made up of precious metals and rare coins as insurance against calamities to your dollars and dollar-denominated assets. I now think it is prudent to allocate from 10-25% of your net worth in these hard assets.

If you have not yet made sufficient gold and silver purchases to protect against the risk of the collapse of the U.S. dollar, call on us today. Prices today may be much higher than they were four years ago, or even at the start of 2006, but what counts is what prices will do in the future. Don't put off taking action because you think it's "too late."

Gold peaked at intraday trading at around $850 in early 1980. Adjusting for the effects of inflation, today's gold price is barely $250 in 1980-dollar terms. There is a lot of room for prices to run up.

I repeat my forecast that there is a good possibility that gold will reach $800 by the end of this year, and a significant possibility of reaching $2,000 in the new year.

As for silver, my prediction that silver could hit $15 this year was reached in intraday trading this past spring. The other part of that prediction was that if silver made it to $15, it could easily reach $20. We have only one month left in this year, but it is still possible. In 2007, a high of $50 is not out of the question.

The Physical Silver Market For Investors Is Shifting

For the past several decades, the most popular form of physical silver held by investors was U.S. 90% Silver Coin. These are the dimes, quarters, and half dollars struck for circulation up to 1964. They are highly liquid, easily divisible, and familiar to most American adults. Various size silver ingots and U.S. 40% Silver Coin had their followers.

(Continued from page 2)

With the debut of the silver exchange traded funds, the physical silver market for investors is changing. Each share of these funds represents 10 ounces of physical silver that the fund has in its vaults or has contracted for receiving delivery soon.

These funds are satisfying demand for hundreds of millions of ounces of silver. But the silver that they own are 1,000 ounce bars of London standard .9999 purity. U.S. 90% Silver Coin, smaller ingots, and even COMEX .999 pure 1,000 ounce ingots are not deliverable to the funds. Instead, the refiners are melting down all these products to manufacture the London standard 1,000 ounce ingots.

With higher demand for these 1,000 ounce ingots has come a lower demand for 90% Coin and the ingots that were widely traded in the U.S. As a consequence, the premiums for silver coins and ingots have been dropping, enough so that you can now purchase 90% and 40% Silver Coin for less than the intrinsic silver value! Even well worn Morgan and Peace silver dollars are trading enough below silver value that they are also being melted down to make the London standard 1,000 ounce bars.

I don't like the idea of owning a falling-out-of-favor form of physical silver. But a 1,000 ounce London standard ingot in a warehouse somewhere in England it totally impractical for almost all investors. At current prices, each unit is worth around $13,500, and is not divisible. Each one weighs 68.5 pounds, certainly not convenient for trading.

Worst of all, you are unable to get you hands literally on physical silver when you own a silver ETF. In the event of a currency crisis, it is doubtful that you could get your hands on the silver backing the ETF. Redemptions of shares for the underlying silver are permitted but they must be in transactions of 50,000 shares (500,000 ounces) and must be processed by an underwriting broker. An ETF might be practical for an investment by an investment fund, but not to hold hard assets that someday could literally protect you or your family.

So, what would make the best overall form to hold? My recommendation is still U.S. 90% Coin. It is especially attractive now that you can purchase it for about 0.8% below the intrinsic value of its silver content.

You can't beat the divisibility. Although 1 ounce ingots are attractive for being able to figure silver content, you could also use 14 silver dimes to represent an ounce.

In owning 90% coin, you may see the discount to intrinsic get somewhat larger. But it is the most practical form for you to have in your immediate possession.

One word of caution, though. Back in the silver price spike of 1979-80, 90% silver coins were trading on the basis of weight at the peak prices, not on count.

While one of our larger national competitors has been promoting Mercury dimes and Walking Liberty Half dollars as rarer collectibles and charged premium prices for them, these coins actually were worth less at the last peak than the Roosevelt dimes and Franklin and Kennedy half dollars. For your own best interest, avoid buying 90% Coin where the majority of coins are Mercuries, Standing Liberty Quarters, or Walkers.

Another Honor For LCS

One of the weekly coin newspapers, *Numismatic News,* has a new editor of its *Coin Market* column. This column is an attempt to provide current retail price indications for U.S. coins in a wide range of grades. It has been much less popular than the *Coin Values* catalog put out by *Coin World,* the other weekly newspaper.

When I was talking with the new editor recently, he lamented that the values of many Better-Date U.S. Gold Coins were not properly reflected in either *Coin Values* or *Coin Market.* He solicited my input because of the volume of such coins that we handle. As I send him my analyses of the different gold series, beginning with the $20.00 St Gaudens, I will be added to the list of consulting contributors.

The objective of the catalog will be to present accurate indications of what coins are actually selling for, not someone's opinion of what prices "should be." This will be a long-term work in progress, but I hope to help make *Coin Market* as accurate as any price guide can be.

Gold and Gold Coins

Gold ended today at $635.50, up $19.00 (3.1%) from last month.

The price of gold has been rising almost steadily for the past two months, mostly before the Chinese announcement predicting the decline in the U.S. dollar.

Higher gold and silver prices have sparked a surge of buying and selling activity, especially over the past week. November may end up as our second highest volume month since the 1979-80 bullion boom, topped only by May 2006 when precious metals hit their peaks earlier this year.

Demand to purchase the U.S. **American Buffalo** (5.6%) and U.S. **American Eagles** (5.2%) fell sharply. The strongest demand was for the low premium issues such as Austria **100 Corona** (2.9%), South Africa **Krugerrand** (2.9), U.S. **American Arts Medallion** (3.0%), and even Mexico **50 Peso** (3.0%).

Premiums have fallen once again for **Common-Date U.S. Gold Coins.** In fact, you can now purchase **Extremely Fine U.S. $10.00 Liberties** (8.6%) for only about $12 per ounce more than you would pay for the comparably-sized U.S. **1/2 Oz American Eagles** (6.8%). Many of these pre-1934 U.S. Gold Coins are selling for prices that are just a fraction of what they would have cost at the last major market peak in June 1989. See my recommendations in previous issues for which types and grades offer the best values.

Even though I like the value of many High-Grade Common-Date U.S. Gold Coins, I think you can find better values among the many **Better-Date U.S. Gold Coins.** You can find coins with four to forty times the rarity of the common-dates, but pay little more than the price of the common-date coin. Our enclosed offering of the **Mint State 1906-D $5.00 and $10.00 Liberties** are a perfect example. Not

(Continued on page 4)

(Continued from page 3)
only are these coins from the first year of Denver Mint production, their mintages and surviving Mint State populations make them well worth the slightly higher price.

The decline in the U.S. dollar has made it difficult to find bargains in **World Gold Coins.** Last week, we were fortunate to repurchase a lovely group of **Napoleon 20 Franc Gold Coins.** By eliminating the middleman wholesaler, we can pass some savings along to you. See our flyers for details.

Silver and Silver Coins

Silver finished today at 13.56, a big jump of $1.14 (9.2%) from four weeks ago. Over the past eight weeks, silver is up a whopping 26.7%!

Although we have sold significant quantities of silver to retail customers, many more are liquidating silver recently. As a consequence, and because of the influence of higher demand for London standard 1,000 ounce ingots, premiums for most forms of physical silver have fallen significantly over the past several weeks. In fact, you can now purchase bags of U.S. **90% Silver Coin** (-0.8%) for 11 cents per ounce below its intrinsic silver value. U.S. **40% Silver Coin** (-0.3%) is also available below silver value. You can even buy occasional lost of heavily worn or damaged **Morgan and Peace Silver Dollars** at or below silver value!

Premiums are also down on U.S. **Silver Eagle Dollars** (14.0%) and Canada **Silver Maple** Leafs (13.3%). Unfortunately, as we saw when silver jumped 50% in late 1997 and early 1998, the premiums on these latter coins will likely keep falling faster than 90% Coin, 40% Coin, and silver ingots.

In the past couple of months, I have described how the Commodity Futures Trading Commission (CFTC) had ignored requests to investigate the market-distorting huge concentration of short positions in the silver market, and that the Securities and Exchange Commission (SEC) had claimed that it would investigate this issue. Apparently, the CFTC has felt enough heat, perhaps partly from the SEC, that it has started to respond to inquiries, implying that it will investigate the handful of traders who are on the hook for about 200 million ounces of silver that they don't own. If the CFTC actually does a proper investigation, silver could easily reach $50 so fast you would barely have time to catch your breath. **If you don't already have your silver holdings established, do it immediately!**

Demand for nice silver collector coins remains stronger than collectors' willingness to sell at today's current bargain prices. If you can find attractive coins at a fraction of their past historic prices, especially less common issues, jump on them quickly.

Fortunately, we have two nice offerings of numismatic silver coins this month. The **Gem Mint State-65 1888 Morgan Silver Dollars** give you another chance if you missed out on our offering of Mint State-60+ rolls of the 1888 Morgans last month. We also have a variety of Classic U.S. Silver Commemoratives if you were unable to pick up one of the MS-65 Stone Mountains last month. Please see our enclosed offers.

P.S. If you haven't already noticed in the table on the front page, look again. The top performers for the past 47, 23, and 11 months are all the same—silver. Despite these impressive results, I don't think we are anywhere near the top yet.

A Holiday Wish

LCS sales are already near double those of 2005, and is our highest volume year since the 1979-1980 bullion boom.

Platinum hit an all-time high price this year, and gold and silver reached their highest levels in 25 years. As a result, many of you also enjoyed a prosperous year.

We anticipate that 2007 will be even more exciting for precious metals and rare coins. You are welcome to join us for the ride.

Once again, we thank you for your patronage. You are the best customers in the world!

We wish you 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 N, Bobbie, Greg, Dave H, Bob, Janet, Dany, Pam, Charlie, Barb, Paul, Tom, Allan, Pat

The Month

Gold Range	24.00	3.9%
Net Change	+19.00	
Silver Range	1.19	9.6%
Net Change	+1.14	
Gold/Silver Ratio	46.9	
Net change	-2.7	
Platinum Range	139.00	12.8%
Net Change	+57.00	
Platinum/Gold Ratio	1.80	

Date	Gold	Silver	Platinum
Nov 01	616.50	12.42	1,085.00
Nov 02	625.25	12.59	1,149.00
Nov 03	627.00	12.58	1,188.00
Nov 06	625.50	12.71	1,177.00
Nov 07	625.50	12.62	1,178.00
Nov 08	616.25	12.51	1,152.00
Nov 09	635.00	13.01	1,187.00
Nov 10	628.50	13.07	1,195.00
Nov 13	624.00	12.86	1,194.00
Nov 14	624.00	12.86	1,164.00
Nov 15	622.25	12.90	1,160.00
Nov 16	620.50	12.92	1,179.00
Nov 17	621.50	12.78	1,183.00
Nov 20	621.00	12.72	1,224.00
Nov 21	628.00	13.07	1,214.00
Nov 22	628.50	13.03	1,149.00
Nov 23	closed		
Nov 24	638.25	13.42	1,185.00
Nov 27	640.25	13.48	1,137.00
Nov 28	637.00	13.61	1,141.00
Nov 29	635.50	13.56	1,142.00

London Silver Market Premium To New York Silver Market = 3¢

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

Liberty's Outlook is published monthly by Liberty Coin Service, 300 Frandor Ave., Lansing, MI 48912. Telephone: National 800/527-2375 Fax: 517/351-3466 Website: www.libertycoinservice.com, E-mail: path@libertycoinservice.com Patrick A. Heller, Editor. Subscriptions are available at $79.00 per year (12 issues). Send subscription orders and changes of address to the above address. All information is derived from sources believed to be reliable, but accuracy cannot be guaranteed. No guarantee of profitability of any investment or recommendation contained herein is made or implied. Liberty Coin Service has been a dealer in rare coins and precious metals since 1971. The publisher, its principals and associates may, from time to time, have a position in items recommended here.