Liberty's Outlook

Volume 14 Issue 12 Liberty Coin Service's Monthly Review of Precious Metals and Numismatics December 3, 2008

Extreme Market Volatility Is Scaring Investors

—Is Anything A "Safe Haven"?
—US Government Commits To Up To $8.5 Trillion In Bailouts

The table at the right and on page 2 tell part of the story of market volatility in 2008. All four of the precious metals we track are down from the start of the year.

The three "Blue Chip" numismatic coins are all up thus far in 2008.

The US dollar is up sharply against a number of other currencies, while still losing ground to the Chinese yuan and Japanese yen.

The major world stock indices have suffered bloodbaths this year.

A wide swath of commodities, after starting to soar early in 2008, have tumbled over the past eight months.

Normal markets are not so volatile

But we are not living in normal times.

We now live in a time when the US government can suddenly announce a nearly $300 billion bailout of a bank like Citigroup without having to get approval in advance and without having to admit that the bank failed.

The $700 billion "bailout" (actually it was $825 billion, but what's another $125 billion?) got all the press in the fall, but it is only one of many financial rescue programs that the US government has in place.

On page 3 I have reproduced a list of 23 existing bailout programs for which the US government has already spent over $3 trillion dollars and existing commitments that could expand the total expenditure to $8.5 trillion.

Despite the pretenses of the US government, the funds for these bailouts do not come out of thin air. The government can't give away assets unless it obtains them from the private sector via taxation, inflation, or borrowing.

In other words, these bailouts ultimately are paid by American taxpayers and consumers.

I don't know about you, but I certainly didn't give the US government permission to spend over $10,000 per US resident since July 2007 for all of these bailouts.

We certainly are not at the end of the mountain of bailouts. The US auto industry made its pitch for $34 billion yesterday. If they succeed, can state and local governments, the post office, airlines, larger manufacturers, and others be far behind?

A major starting point of the current financial crises were the sub-prime residential mortgages. It seems like just in the past couple of weeks there has been a groundswell of reports that defaults on commercial property mortgages are occurring.

Lower prices for precious and other metals has led to a growing swell of mine closures and cutbacks. Gold mining output in both Australia and South Africa is expected to be about 20% lower in 2008 than in 2007, even though gold prices are currently near all-time record levels in both currencies!

In my judgment, the price of gold has been forced down by the US government to avoid having it appeal to stock market investors as a safe haven alternative to owning stocks.

While the US government openly sold gold bars from its vaults up to 1971, there is now a suspiciously high number of gold bars currently showing up on the market with hallmarks of the US government. It is entirely possible that the government is trying to hold down gold prices by sneaking some of its gold holdings onto the market.

One other suspicious indicator of gold price manipulation was reported early this week. One analyst noted that the price of gold had declined only 2% for the year through the end of November, yet the COMEX gold price closed lower on 93% of the trading days!

The disconnect of gold and silver prices between the paper contracts traded on the New York COMEX and the physical market that we have seen since mid-July has continued.

Large numbers of investors have purchased December COMEX gold or silver contracts to ask for delivery of the underlying bars. The first delivery date for December contracts was November 21. Already, about 1.175 million ounces of gold, about 40% of all gold registered on the COMEX, has been delivered to settle contracts. There are a few weeks left to demand delivery of December contracts. It appears almost certain that there will be a sharp supply squeeze in the next few weeks. I have heard indirect stories that some of the trading houses with large short positions in the COMEX gold market are quietly, but urgently, trying to locate physical gold to cover their positions.

I don't have as specific information on the

2008 Year To Date Results

Through December 2, 2008

Precious Metals		
Gold		-6.2%
Silver		-33.5%
Platinum		-44.8%
Palladium		-47.7%
Numismatics		
MS-63 $20.00 St Gaudens		+10.6%
MS-65 Morgan Dollar		+10.3%
MS-63 $20.00 Liberty		+8.3%
US Dollar vs Foreign Currencies		
South Korea Won		+56.4%
South Africa Rand		+53.4%
New Zealand Dollar		+45.2%
Australia Dollar		+36.2%
Brazil Real		+36.2%
Great Britain Pound		+34.1%
Canada Dollar		+27.5%
India Rupee		+27.1%
Mexico Peso		+25.0%
Euro		+15.9%
Switzerland Franc		+7.2%
Taiwan Dollar		+3.0%
China Yuan		-5.7%
Japan Yen		-16.9%
U.S. Dollar Index	86.702	+13.05%
US and World Stock Market Indices		
London FT 100		-36.2%
Dow Jones Ind Average		-36.5%
S&P 500		-42.2%
Russell 2000		-42.3%
Frankfurt Xetra DAX		-43.8%
NASDAQ		-45.3%
Tokyo Nikkei 225		-48.6%

Inside this issue:

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COMEX silver market, but my understanding is that millions of ounces of silver have already been withdrawn to settle December contracts.

If either of these markets comes close to a default, the gold and silver prices could blast off in the blink of any eye. The COMEX allows contracts to be settled for cash rather than the commodity, so an outright default is unlikely. However, any failure to delivery metal would almost certainly spark a torrent of demand to purchase physical metal.

Just about everyone admits that the recent strength of the US dollar is just temporary. The question is when, not if, it will fall sharply in response to the huge increases in the money supply that the bailouts require.

Even though interest rates in the US and other countries are low and mostly still declining, the addition of so much debt is almost certain to force up interest rates in the near future.

For instance, the cost of buying derivatives to protect against the risk of default on US government 5– and 10- year debt is now higher than private borrowers had to pay a year ago. I'm not saying that the US government is in imminent risk of default on its debt, but risk is growing and investors realize it.

What Now?

There is so much scary financial news (and relatively minimal good news), that I simply could not hope to cover more than a small portion of it. In this newsletter, I have tried to list some of the more important tidbits that you may have missed.

One thing I want you to especially notice is that, through yesterday, the price of gold is down only 6.2% for the year. That blows away the results of the major US and foreign stock market indices. It clobbers the results for almost all other commodities for the year. Even its decline since mid-March has been much smaller than for most commodities.

Silver has declined further, possibly because of the huge silver short position that JP Morgan Chase assumed when it took over Bear Stearns in March. The only way to cover the new owners without having to extend additional taxpayer money was to force down the price.

Platinum and palladium have fallen in part because of the imminent appearance of catalytic converters using silver in place of these two metals. As catalytic converters currently constitute over 50% of all platinum demand, there is every likelihood that prices could fall further. I personally would not be surprised to see platinum's price fall below gold.

Much higher levels of inflation are pretty much locked into the US financial markets right now.

Over the next few months, as the value of the dollar plummets, job losses mount, and the number of companies going bankrupt continues to rise, hard assets like gold and silver should become the safe haven assets of choice for at least part of investors' holdings.

Even though I am strongly tempted to want to avoid any real estate, stock, or bond investments right now, I think the best course is to consider precious metals as your insurance against financial calamities in other assets. For insurance, I recommend 20-25% of your net worth he allocated to gold and silver. Sorry, I don't have any sage advice on what to recommend for the rest of your holdings.

Only buy physical gold and silver and take possession of it. Some of the pooled accounts, certificate programs, and precious metals exchange traded funds have so many loopholes in their legal paperwork that it could happen that you would never benefit if prices soar.

Also, avoid purchasing precious metals in your IRA or other retirement account. There is some risk that the government may try to nationalize private retirement accounts in 2009 or beyond (see my discussion in last month's newsletter), so I don't consider them a safe place for your precious metals.

How much time do you have to establish your insurance holdings of gold or silver. You may have a few weeks or months before prices rise significantly. Or you might not have that much time. Call us today for assistance.

2008 Commodity Price Swings

	12/31/2007 to 12/2/2008	12/31/2007 to 3/11/2008	3/11/2008 to 12/31/2008
Hogs, Sioux Falls	+20.0%	+2.9%	+16.7%
Broilers, dressed "A"	+12.3%	+3.7%	+8.4%
Cocoa, Ivory Coast	+5.6%	+28.0%	-17.5%
Butter, AA Chicago	+4.8%	+6.4%	-1.5%
Beef, choice	+1.8%	-1.7%	+3.5%
Sugar, cane, raw, world	-2.5%	+15.2%	-15.4%
Hominy feed, Cent IL	-5.0%	+35.0%	-29.6%
Gold	-6.2%	+16.4%	-19.4%
Coffee, Columbian NY	-7.9%	+11.5%	-17.5%
Natural gas, Henry Hub	-10.5%	+31.6%	-31.9%
Cheddar Cheese, bulk Chi	-11.8%	-13.2%	+1.6%
Corn oil, crude wet/dry mill	-11.8%	+39.5%	-63.3%
Aluminum	-27.0%	+26.6%	-42.6%
Corn, No 2 yellow	-27.6%	+25.5%	-42.3%
Eggs, large white Chicago	-27.6%	+1.4%	-28.8%
Oats, @2 milling, Minpls	-29.4%	+26.2%	-44.0%
Wheat, hard KC	-32.8%	+42.3%	-52.8%
Soybeans #1 yellow IL	-30.7%	+14.9%	-39.6%
Silver	-33.5%	+32.6%	-49.9%
Sorghum (Milo) No.2 Gulf	-35.1%	+14.4%	-43.3%
Platinum	-44.8%	+33.4%	-58.7%
Copper	-47.1%	+28.2%	-58.8%
Palladium	-47.7%	+32.1%	-60.4%
Zinc	-49.2%	+12.2%	-54.7%
Crude Oil, Brent	-54.2%	+11.2%	-59.1%
Gasoline, conv reg NY	-56.3%	+5.3%	-58.5%
Nickel	-62.9%	+24.6%	-70.2%

Data source: The Wall Street Journal

A Caution On the Rare Coin Market

At two major shows in November, we observed that the demand for big-ticket rare coins, those priced above $5,000, has cooled off sharply. In auctions, many more of these pricier lots are failing to sell.

One dealer, who handles almost no gold coins, told us that his experience is that anything priced over $300 is tougher to sell right now.

In our experience, the lower-grade and lower priced US gold coins are still much in demand, while the prices of the top quality issues have fallen in the past month. There are several **Common Date US Gold Coins** in Choice Mint State-63 and higher quality whose prices have fallen as much as 10% from a month ago. The premiums on the lower grade coins have come down slightly, which I think is more of a factor of higher gold spots than a fall off in demand. At both coin shows, these lower priced US Gold Coins were among our best sellers.

At the Michigan State show, the **Mint State-62 1911 $20.00 Saint Gaudens** was perhaps the coin most requested by collectors that stopped by our booth. This is a coin that is more than 140 times rarer than the 1924 Saint in high grade, and has a history of selling for as much as 50% more than the 1924 in MS-62 quality. Today, you can purchase them, if you can find any, at not much more than the price of the 1924. Even in recession, savvy collectors love bargains. We have a modest quantity available, our largest group ever. Please see our flyer for details.

The paper money market seems to be in the same straits as rare coins. Notes priced over $5,000 are slow movers. The inexpensive notes that were subject to major marketing campaigns over the past few years have also cooled off. What is still selling readily are the affordable notes that are far more scarce than comparably priced rare coins. Discovery hoards also attract strong interest. This month, we have two unusual featured offerings. The **1859 Bank of De Soto, Nebraska Territory $5.00 Notes** are so rare that we were unable to find any selling in auction or on price lists over the past several years. Likewise, there is no other dealer that has any stock of the **Crisp Uncirculated Cass County Uncut Sheets.** See our enclosures for more information.

The public's pullback in discretionary spending is almost certainly the reason that demand for the more expensive coins and paper money has dropped.

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For the time being, I recommend caution in making numismatic purchases. I would hold off purchasing any collector coins or paper money priced above $2,000 and any non-gold coins priced above $750, because they might be less expensive in a month or so.

One reason I expect this decline is that several dealers at the Michigan State show were aggressively working the floor trying to unload their big-ticket coins. Last Saturday, for instance, we were offered more 1893-S Morgan Silver Dollars than we have been offered in the past year! None of the dealers were willing to accept the prices we offered, but I bet they soon will wish they had.

The U.S. Government's $8.5 Trillion Of Bailout Programs

Data compiled late November and reported on www.sfgate.com

Bailout Programs	Maximum Commitment	Already Spent
Federal Reserve System		
Commercial paper	$1.8 trillion	$271 billion
Term auction facility	$900 billion	$415 billion
Other assets	$606 billion	$606 billion
Finance company debt purchases	$600 billion	none yet
Money market investor funding facility	$540 billion	none yet
Citigroup assets	$291 billion	$291 billion
Term securities lending	$250 billion	$190 billion
Term asset-backed loan facility	$200 billion	none yet
Other credit extensions	$123 billion	$87 billion
Discount window	$92 billion	$92 billion
Commercial paper #2	$62 billion	$62 billion
Discount window #2	$50 billion	$50 billion
Bear Sterns assets	$29 billion	$27 billion
Overnight loans	$10 billion	$10 billion
Secondary credit	$118 million	$118 million
Federal Deposit Insurance Corporation		
Loan guarantees	$1.4 trillion	none yet
GE Capital guarantee	$139 billion	$139 billion
Citigroup assets	$10 billion	$10 billion
Treasury Department		
Troubled Asset Relief Program	$700 billion	$375 billion
Tax rebate stimulus checks	$168 billion	$168 billion
Exchange Stabilization Fund	$50 billion	$50 billion
Tax breaks for banks	$29 billion	$29 billion
Federal Housing Administration		
Hope for Homeowners	$300 billion	$300 billion
GRAND TOTAL	**$8.5 trillion**	**$3.2 trillion**

Sources Of Useful Information

We have had numerous requests for other sources of information on the internet that we could recommend. There are many websites that could be checked, so feel free to explore on your own.

There are websites that have limitations on the value of their information. For instance, www.kitco.com lists precious metals spot prices but does not disclose that the reported information may be as much as 15 minutes old. This is one of the most popular sites visited by the public, but I personally find the commentaries of Kitco's Jon Nadler to be less accurate in news and analysis than the essays contributed by others.

Here are four other free sources that we have found especially useful:

www.coininfo.com. We have found the spot prices posted on this website to be quite close to the latest trades. The site posts a handful of columns of news and analysis, including some originally appearing in this newsletter or in the editor's weekly gold column posted on Numismaster.

www.thebulliondesk.com This British website has several subscription areas but also posts spot prices that are close to the latest trades. It also has a section of news stories and essays accessible without paying a subscription fee. This site picks up items from a wider variety of sources than coininfo.com.

www.numismaster.com. This is the website sponsored by the company that publishes weekly and monthly coin and paper money publications, including *Numismatic News*, and a wide spectrum of reference books and catalogs. The editor of this newsletter writes a weekly gold commentary for this website that is posted on Tuesday mornings, located under the Articles menu (search for the name "Heller"), which is reported to be the most popular column on the website. The gold commentaries are frequently reprinted, linked, or quoted at other websites. A good amount of the information in this newsletter and the Numismaster column overlap, but there is still much material unique to each. This would be an excellent place to check for information in between issues of *Liberty's Outlook*.

www.gata.org. The dispatches menu includes a huge amount of precious metals news and analysis that the mainstream US business media never covers. Once in a while they pick up information from this newsletter or the editor's Numismaster columns. The is the website of the Gold Anti-Trust Action Committee.

Readers are welcome to submit other sites that they have found informative, for possible mention in future issues of this newsletter.

Gold and Gold Coins

Gold ended today at $771.75, up $20.50 (2.7%) from four weeks ago.

Though prices were much less volatile than they were in October, they were certainly not tame.

Only twice in the past 20 years has the spot price of gold climbed $50 in a single day—on September 17, 2008 and November 21, 2008. On November 21, gold did not achieve the $50 increase until the aftermarket US trading after the COMEX closed.

On the negative side, gold dropped $41.75 two days ago from the previous close on Friday.

The jump in gold to more than $800 on November 21 and through the end of November had the effect of encouraging a modest increase in sellers parting with their bullion gold. As a result, a few more products are available than a month ago, and many premiums have declined.

Many of the major gold coins are available at prices that are $20-40 closer to the spot price than they would have cost in early November.

Even though the spot price of gold is $20.50 higher than it was when last month's newsletter was published, some premiums have fallen so much that the British **Sovereign** (21.0%), France **20 Francs Rooster** (20.1%), and Swiss **20 Francs** (20.1%) are now selling at a lower price!

The lowest premium item at the moment is still the **Kilogram Ingot** (3.5%). Among the lower premium gold issues that you can purchase for 1-3 weeks delivery are US **American Arts Medallions** (6.1%), Mexico **50 Pesos** (6.8%), and Austria **100 Coronas** (6.5%). As the price of gold rises, as I expect, these premiums will likely decline further.

The US Mint announced early last week that it has no more gold, silver, or platinum bullion coins to sell this year other than the 1 Oz Gold **American Eagle** (10.0%) and the **Silver Eagle Dollar** (48.4%). When the Mint makes their first delivery of 2009-dated bullion coins in early January, there will be no Platinum Eagles, Gold Buffaloes, or fractional-size Gold Eagles available at all. Only the 1 Oz Gold and Silver Eagles will be sold. In years past,

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the Mint started production of the next year's coins in September or October. For 2009, the initial sale will be limited to coins that can be struck in two weeks in December. As a result, I expect premiums on US bullion issues to remain high for the indefinite future.

At the Michigan State Numismatic Society convention in Dearborn last weekend we observed an interesting phenomenon. Another dealer had a handful of 1 Oz Gold American Eagles available on a cash and carry basis. Two of our customers stopped by our booth to tell us that they had willingly paid that dealer a price that was about $20 more than the price LCS would have charged for the same coins delivered about two weeks after payment.

When I first bought gold bullion coins back in the mid-1970s, I was a cash-and-carry kind of customer. But I don't think I would have been willing to pay that much extra to get immediately available coins.

Buyers in India, the world's largest gold consuming nation, have jumped in to buy gold every time it dropped below $800 over the past few months. To me, that is a strong indicator that any opportunity to buy gold in the $700s should be considered a bargain. There is some possibility of a small decline from current levels, but the upside potential is tremendous.

Last week, analysts at both Citigroup and JP Morgan Chase issued reports that there was a good prospect for gold reaching $2,000 in the not-too-distant future. These are companies that typically downplay owning gold.

If you haven't already established your insurance position in gold and silver, call on us today. You will gain some peace of mind and I expect that you will be financially rewarded by the end of 2009.

Don't forget! Even though our Daily Quotes page may show a coin as not available, we do occasionally get a small quantity in stock. Feel free to ask us what we might have available at the moment, even if we cannot take orders for large quantities.

The Month

Gold Range	111.50	14.8%
Net Change	+20.50	
Silver Range	1.46	13.4%
Net Change	-1.05	
Gold/Silver Ratio		78.7
Net change		+9.5
Platinum Range	95.00	10.3%
Net Change	-95.00	
Platinum/Gold Ratio		1.07

Date	Gold	Silver	Platinum
Nov 05	751.25	10.86	920.00
Nov 06	739.25	10.46	878.00
Nov 07	741.25	10.36	892.00
Nov 10	751.50	10.62	900.00
Nov 11	740.00	10.21	877.00
Nov 12	725.75	9.98	875.00
Nov 13	715.00	9.40	863.00
Nov 14	750.75	9.89	895.00
Nov 17	750.00	9.73	871.00
Nov 18	740.50	9.95	887.00
Nov 19	744.00	9.71	873.00
Nov 20	756.50	9.43	826.00
Nov 21	799.00	9.88	860.00
Nov 24	826.50	10.75	897.00
Nov 25	825.50	10.67	902.00
Nov 26	817.50	10.62	900.00
Nov 27	closed		
Nov 28	824.25	10.59	912.00
Dec 01	782.50	9.85	840.00
Dec 02	783.25	9.84	833.00
Dec 03	771.75	9.81	825.00

London Silver Market Premium To New York Silver Market = 10¢

Note: On days where there were different buying and selling spot prices, the price listed above is the LCS selling spot price.

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

Silver and Silver Coins

Silver finished today at $9.81, a decline of $1.05 (9.7%) from last month.

Even though the price has declined, we have seen several premium levels drop in the past month. Some new fabricators of ingots have gone into production, helping to ease extreme supply shortages.

For instance, in the last month the price per ounce of silver content has fallen by more than the drop in the spot price for such items as US **90% Silver Coin** (36.2%), US **40% Silver Coin** (13.3%), **1 Oz Silver Ingots** (30.6%), and US **Silver Eagle Dollars** (48.4%).

High premiums on silver are repulsive to me. I'm sure premiums will fall sharply when the price of silver returns to levels it reached this past March. But, much as I like gold, I think the prospects for silver are even better. For much of the past several years, the gold/silver ratio has ranged from 45 to 60. With it near 80 now, that tilts appreciation prospects much more in favor of silver.

If I were buying silver now, I would seriously consider the 40% Silver Coin simply on the basis of its lower premium.

However, these coins have significant drawbacks. Because they also contain 60% copper and nickel content, you have to purchase (and arrange for storage) much more bulk to own the same amount of silver. If the coins have to be shipped, the postage costs are much higher than for purer silver forms. They also are prone to larger discounts from spot price in strong silver markets. When the price of silver jumped about 30% in late 1997 and early 1998, some refiners simply stopped accepting 40% Silver Coin for meltdown.

I love 90% Silver Coin for its popularity, liquidity, and divisibility. However, you can purchase ingots for a lower premium right now. If 40% Silver Coin doesn't suit your circumstances, the ingots look like the way to go right now.

It has been almost impossible to locate any semi-bullion silver coins for the past year. LCS Senior Numismatist Tom Coulson had the good fortune to snap up a sizeable group of **Mint State Mexico 100 Pesos** at the Michigan State show last weekend. They probably won't last long. Please see our offering.

A Holiday Wish

The year 2008 has been interesting and challenging. Unlike the general trend for most years in American history, it is likely that the net wealth of most Americans declined during the course of this year.

Most of those who have followed our advice suffered smaller losses than the average American and maybe even prospered this year. If you have established your insurance position of precious metals, I expect you will continue to achieve better than average results in 2009 and beyond.

As volatile as the year 2008 has been, I expect an even more exciting and nerve-wracking 2009. We welcome your company on this journey.

This year has been phenomenal for this company. Total volume has doubled that of last year. To handle the increase in business, we opened a second location in our shopping center in June. We also nearly doubled the size of our staff, adding awesome employees with a variety of talents. The challenge of managing a larger operation has been offset by the benefits of the extra space and a larger staff to serve customers.

As we do every year, we thank you for your patronage. It is our honor and privilege to serve you, the best customers in the world!

If it were within our power to grant you any wishes we would first bring you a world at peace with liberty for everyone. The next wish would be for you to enjoy a holiday season filled with the health and 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

Mark (the security guard), Matt, Jon, Shane, Allie, Cheryl, Augie, David S, Nic, Bobbie, Greg, Dave H, Bob, Janet, Dany, Pam, Charlie, Barb, Paul, Tom, Allan, Pat

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