Liberty's Outlook

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Bargains Galore In Gold And Silver!

Page 2: State Quarters, Sacagawea Dollars Take U.S. By Storm!
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Last month I warned you that coin dealers across the country would be swamped buying back gold and silver coins and ingots in January.

I was right on target. In January, we purchased more coins and bullion from our customers than in any month since the price of silver reached $50 twenty years ago!

"Small picture" Y2K investors, thought that the only reason to hold precious metals was for protection against major crises like the calendar turning over to January 1, 2000. When the world didn't come to an end, they liquidated mountains of Gold and Silver Eagles, common-date average circulated Morgan and Peace Silver Dollars, and lesser amounts of U.S. 90% Silver Coin and Silver Ingots.

The underlying long-term fundamentals for gold and silver were so strong that the spot prices didn't even burp as this one-shot event unfolded.

However, with trading activity going almost entirely in one direction, from individual investors to dealers, then to wholesalers and refiners, premiums dropped noticeably on a wide variety of products.

For self-protection, wholesalers and dealers increased their buy/sell spreads. No matter how low bids went, most sellers kept selling.

For example, two months ago wholesalers would readily pay 2% above gold spot to purchase 1 Oz Gold American Eagles. Today, the strongest bidders are paying about 0.5% below spot!

Just ten months ago, common date circulated Morgan and Peace Dollars were selling retail for $11,450 per bag. Today, even with a higher spot price, you can buy the same bag for $7,700.

A year ago, with the silver spot at $5.53, bags of U.S. 90% Silver Coin were selling retail for $5,400, at a ridiculously high premium of more than 36%! Two months ago, with the spot price at $5.18, 90% bags were selling for $3,960, less than a 7% premium. Today, you can purchase 90% bags at a discount to spot. With the silver spot at $5.21, you can now buy them for just $3,675, a cost of only $5.14 per ounce of silver content!

This one-time liquidation is mostly over, but will likely continue at a lesser pace through February.

Why Gold And Silver Spot Prices Stayed Strong

A year ago, shortages of specific coins popular with Y2K investors led to significant premium jumps. Now, liquidation of this same merchandise has had almost the exact opposite effect.

Last year, the amount of gold coins and bullion purchased for Y2K purposes was dwarfed by investment demand from the Far East for everyday financial insurance reasons.

On top of that, worldwide investment demand for physical gold is only a small part of the overall market. Gold demand for use in jewelry is many times larger.

Beyond that, the amount of gold traded in paper contracts is almost 100 times the volume of physical gold traded for investment, jewelry, and industrial purposes!

As a result, a year ago we saw premiums rise while the spot prices remained stable.

While the current liquidation frenzy is somewhat more concentrated in time, the total volume is so small that the long-term impact on spot prices will be negligible.

To give you some idea of what it takes to move spot prices consider that, over the course of 1999, the U.S. Mint sold four million additional Silver Eagle dollars and less than one million extra ounces of Gold Eagles compared to 1998. Although the change was dramatic for these items, it was insignificant in the overall market.

Contrast that to just two news developments in January. First, just before the last newsletter went to press, the price of silver fell 5% upon rumors that the Chinese government might sell over 90 million ounces of silver (a story since largely discounted as unlikely). Second, just over two weeks ago one South African gold mine repurchased 1.4 million ounces of gold that it had sold for future delivery (about 55% of their total forward position). That quickly triggered almost a 2% rise in gold prices.

Those are examples of the magnitude of activity it takes to affect gold and silver prices.

In sum, the demand for precious metals for Y2K purposes and the current liquidation of same will not change what I see as the inevitable boom markets for gold or silver.

Savvy hard asset investors, who purchase gold and silver for long-term insurance against financial calamities that could affect their other assets, will profit far better than those who jumped in and out for only one transitory reason.

In other words, I think today is an excellent time to be buying gold and silver for the long-term. Today's lower premiums are a bonus opportunity not to be missed!

Will "Normal" Premiums Return?

As long as wholesalers have a backlog of product to sell, premiums will remain low. For instance, there are wholesalers who normally might have carried a net position of 500 1 Ounce Gold American Eagles that now may have 5,000 pieces in stock. They can sell paper contracts to balance their position, looking to make a profit if they later sell these coins at higher premiums than

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they can today.

In gold, the American Eagle series experienced the largest premium declines because of the relatively large quantities being liquidated.. South Africa Krugerrands, Canada Maple Leafs, British Sovereigns, French 20 Franc Roosters, and Swiss 20 Francs also declined because of liquidations.

Coins such as the Austria 100 Corona, Australia Kangaroo, U.S. American Arts Medallion, and Mexico 50 Peso were not liquidated in significant quantities because they were not hyped to Y2K investors. However, premiums declined simply to remain competitive with the gold products that were liquidated en masse.

Lower premiums on pre-2000 dated gold coins has created a two-tier market. Because primary distributors would have to pay more to purchase 2000-dated coins from the issuing mints than they are paying to purchase pre-2000 coins, they are unwilling to order 2000-dated coins unless they can sell them for a premium.

As most investors care about price more than the date, that has reduced demand for coins dated 2000. At the moment, expect to pay an extra $2-3 per coin if you wish to specifically acquire one with the 2000 date.

As the strong demand for physical gold continues, I'm confident that the recently liquidated coins will be taken back off the market by long-term investors. Expect premiums to gradually start rising, but it could easily take six months to get back to where they were late last year.

In silver, liquidations were on a much smaller scale. Premiums declined anyhow as retail buying demand all but disappeared in January.

The demand that did exist this past month was mostly for 2000-dated Silver Eagle Dollars. As should be no surprise to regular readers of this newsletter, the strong demand for 1999 and 2000-dated Silver Eagles from new collectors and investors has prompted growing demand for prior year issues as well. Premiums dropped modestly in January. However, they remain well above levels of late 1998 and before.

Silver ingots were already selling at reasonable premiums. The relatively moderate liquidation knocked down premiums, but only a few cents per ounce.

Perhaps the largest impact was seen with average circulated common-date Morgan and Peace dollars. These were heavily hyped for Y2K purposes a year ago by other dealers even though they were poorly suited for that purpose (the only purpose they served was to fatten those dealers' profit margins).

Even though the price of these dollars had been dropping steadily since their peak last April (when we advised you to sell or swap them), they dropped another 10% in January. In my judgment they have not hit bottom yet. Look for them to drop possibly another 10% over the next few months.

Of all the premium changes, what most surprised me was the decline in the price of 90% Silver Coin to a discount from silver value! Y2K buyers often paid very high premiums to purchase the silver. Faced with losing 30-40% on their purchase despite a relatively stable silver spot price, many owners elected to hold onto their 90% Coin.

Although we bought some 90% Coin in January, it was no more than in any typical month. What did change was that demand fell significantly. But that does not explain why 90% coin now retails for a discount to its silver value.

I believe much of the 90% premium decline happened as dealers and wholesalers scrambled for cash flow to handle all the other gold and silver liquidation. In other words, I think the drop in premium was more caused by dealers than by investor liquidations.

The price of 90% Coin is now so low that refiners can purchase it to help fill industrial orders. Until the retail premium jumps back up to at least 2%, this source of silver supply will diminish the growing pressure for higher silver prices.

In my judgment, the premium on 90% Coin dropped too far. It now has about a 30 cents per ounce price advantage over all other form of silver bullion coins and ingots. With 90% Coin being the most popular way to invest in physical silver, don't expect today's bargain opportunity to last long.

As investors learn that they can acquire 90% bags at a discount to silver value, they will quickly bid it back up to a small premium. I expect that to happen by the end of February. By spring, look for bags to be retailing at a 2-3% premium.

Of all the bargain premiums in gold and silver products today, I think 90% Coin is by far the best value. It will also be the fastest to disappear. Buying a bag of 90% will likely generate at least a 5% better return than any other silver bullion purchase you can make today! Act soon. You don't have much time.

Monetary Gold Receives Major Endorsement

At a conference in Paris last November 19 on "Gold and the International Monetary System in a New Era," 1999 Nobel Economics winner Robert Mundell from Columbia University made a ringing endorsement of gold. In his

Did You Know?

The new State Quarters program and the introduction of the Sacagawea Dollar coin have taken the country by storm.

The Quarters are so popular that all kinds of mainstream merchants have jumped in to sell holders and albums. In our local newspaper, every few days there is another major ad offering sets of coins or the popular coin maps, some at semi-reasonable prices and some at outrageous levels.

A number of map sellers are charging a higher price to include the first several coins with their map. Response has been so strong that the marketers have had to scramble to find their early 1999 issues. As a result, the Delaware and Pennsylvania issues right now are more valuable then the old silver quarters! New Jersey quarters are not much less.

At the moment we would pay $40 for Mint State rolls of either the Delaware of Pennsylvania quarters. When the map promoters are finished with their campaigns, I expect these prices will tail off. If you have any quantity of these coins, consider swapping them for 90% Silver Coin. Such a swap may allow you to own 90% Coin for less than face value!

The Sacagawea Dollars were supposed to be released on March 1. Interest is so strong that Wal-Mart struck a deal with the Mint to get these coins into their stores early. They are offering them at face value with a limit of 10 coins. We have already seen a number brought in by Wal-Mart patrons.. Hopefully, LCS will have a substantial quantity available by next weekend.

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opening remarks, he said:

"Gold is right now the second most important reserve and it is certainly the only commodity reserve. Gold has this advantage: gold is nobody's liability, and nobody can print it. It means that it may fluctuate but in the long run will have a durable standard of value in some sense. Gold will always have its fall-back value."

"That could be true of important currencies, but remember that currencies come and go over the world. We no longer see the Roman currency. We no longer see the paper Chinese currency of the eighth century. Currencies come and go, they have their time. But gold over this long period of time has remained. And gold will be even a good unit of account in the next century. If you are looking ahead one hundred years from now, and you want to have a single unit of account on something, I would probably say that gold is the most likely measure of that."

In his speech Mundell advocated an ultimate international reserve monetary unit consisting of three elements—the U.S. dollar, the Euro, and gold.

Inflation On The Horizon

A number of financial indicators for the fourth quarter of 1999 have been reported recently. Several point to the possibility that the U.S. economy may be overheating. The "I" word—inflation—has been mentioned by several analysts.

With the news that the investor-favorite internet company, Amazon.com, is preparing to reduce staff, investors are nervous. At one point the Dow Jones Industrial Average had fallen by 10% from its level in early January.

Worried investors have reacted by moving some of their assets into precious metals. While sales for all of January were negligible, beginning late last week, gold and silver buyers have returned with a vengeance.

The Federal Reserve Open Market Committee tinkers with interest rates as a way to fend off inflation. At their meeting this afternoon not only did they announce an interest rate hike of 0.25%, they implied that more increases would be likely in the near future.

In an inflationary environment, paper assets are at great risk of loss of value over time. That is one of the prime reasons why prudent investors include precious metals as part of their overall holdings. When paper assets decline, gold and silver often hold their value or increase. Those who profit the most from their precious metals holdings are those who get in earlier rather than later. You have been warned.

Gold and Gold Coins

Gold closed today at $285.00, up $4.00 (1.4%) from a month ago.

Aside from falling premiums on many gold bullion coins, the major news in January was that nothing seemed to shake the strength of the gold market.

When the Netherlands announced early in January that it had just sold some gold and that it would be selling more in 2000, the spot price didn't dip at all.

When the Bank of England held its fourth auction of 25 tons of gold on January 25, it also had no impact on the gold price.

One to two years ago, either of these events would have clobbered the gold price by $5.00 or so. Back then it seemed like any kind of news would push down the price and that no kind of positive news would boost it.

By the way, the Chinese government seems to be preparing to ease the restrictions against free private gold trading. Although no formal policies or statements have been made, the government recently took the unprecedented move of selling some of its gold to the public.

Overall, almost nothing now seems to hurt the price while price increases of 1-2% in a single day happen regularly.

When gold spot has dipped below $285 a few times since the September-October spike, investment demand from the Far East has soared. To me that says that gold has a solid base at current levels. There is much more likelihood of an increase than a decrease over the next few months.

The best buys remain the Austria **100 Corona** (2.0%), U.S. **American Arts Medallion** (1.4%), and South Africa **Krugerrand** (2.2%). I especially like the Medallions—they have a potential for a numismatic premium that the other issues just don't have.

Also at attractive levels now are U.S. **American Eagles** (3.0%), available at lower premiums than primary distributors pay to acquire them from the Mint!

Among small size gold coins, there are several attractively priced alternatives: the British **Sovereign** (5.4%), French **20 Franc Rooster** (6.2%), and Swiss **20 Francs** (6.2%). All have histories of selling at much higher premiums, some as high as 100%. Among them, I prefer the Sovereign because they are actual coins minted in the year they are dated. The Roosters and many of the Swiss coins are modern restrikes, minted long after the date on the coin.

Bonus buying opportunity: With wholesalers increasing their buy/sell spreads, investors with sizeable funds and flexibility on timing and product should call our Trading Desk. We regularly receive calls where a wholesaler is looking to sell, for example, 1,000 Roosters, or 700 Sovereigns, or 500 American Eagles, and the like. Customers ready to purchase such large quantities on an immediate basis can cut the spread and save 1-2%.

Common-date U.S. Gold Coins have been quiet in the past month. The market started to boom in late December, but stalled in reaction to the liquidation of gold bullion in January. We took advantage of the circumstances to pick up two nice groups of **Choice Mint State-63 $20.00 Saint Gaudens** at their lowest price since 1979! Saints are the most popular gold coin with collectors because of their size and their lovely design. See our offer for details.

Attractive groups of **Better-Date U.S. Gold Coins** are pretty much non-existent. At the huge Florida United Numismatists (FUN) show in Orlando in January, I found a few pieces of 1915 Saints in MS-62 quality, the scarcest Saint priced under $650 (although I did see a dealer who wanted more than $1,000 for his MS-62 specimen). These few pieces were the largest accumulation I have ever seen. They sold almost instantly when I put them out for sale.

European gold coins from the 1800s also look attractive right now. As of January 1,2000, the member nations of the European Union have abolished Value Added Taxes (VAT) on such sales. At the FUN show I found two small groups of some rarer French gold issues in the 1800s that sold out quickly. I also managed to find a larger group of **Gem Mint State-65 Netherlands Willem III 10 Gulden** dated in the 1870s and 1880s at such a good price that we can offer them for less than MS-60 catalog value!

Silver and Silver Coins

Silver closed today at $5.21, up three

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cents (0.6%) from a month ago.

When the price of silver threatened to break through the $5.40 resistance level at the beginning of January, a rumor started circulating that the Chinese government was considering the sale of as much as 93 million ounces of silver. Prices quickly dropped 5%.

Knowledgeable analysts have since discounted the possibility of a Chinese sale. While they readily accept the possibility that the Chinese mines could have produced that much silver over the past several years, they also point out that domestic silver demand far exceeds what the mines could deliver. If the Chinese government really has been stockpiling silver, that implies that the quantity of silver being smuggled into China is at much higher levels than previously thought.

Once investors realized that the possibility of a Chinese government sale implied increased demand elsewhere, silver prices started to recover. On January 27, silver closed at $5.37, almost all the way back to the $5.40 resistance point again.

The future for higher silver prices looks bright. To me it's when, not if.

At the moment, my number one recommendation for a silver bullion purchase is U.S. **90% Silver** Coin (-1.3%). In addition to having a huge price advantage, it is also the most widely traded form of silver bullion, and has the best liquidity and divisibility. For now, there really isn't any reason to consider other low premium forms such as U.S. **40% Silver Coin** (5.4%), and **100, 10, and 1 Ounce Ingots** (4.2%-10.9%).

The 2000-dated **Silver Eagle Dollars** (57.6%) are selling well, as expected. We currently have proposals before more than ten local high schools and one business college who are considering purchasing these coins in a gift box for this year's graduating classes. We have never seen such interest in the past.

Last year, we saw marketers offering colored Silver Eagles. Despite their high prices, they were extremely popular. We have obtained a supply of 2000-dated Silver Eagles colored with the higher quality process of hand-enameling. As you expect from LCS, we make them available at a money-saving price. See Allan Beegle's Notes From Liberty for prices.

The decline in common circulated Morgan and Peace dollars has also led to a slight drop in the prices of Mint State rolls. There could be some further weakness in the coming months.

In contrast, **high-grade Common Date Morgan and Peace Dollars** have held steady or increased slightly simply because supplies are so tight. **Better Date Morgan and Peace Dollars** are even more difficult to find. When nice coins appear on the market, they are snapped up by savvy collectors and investors.

Ever since **Mint State Franklin Half Dollar Rolls** fell to a fraction of their peak price in the 1980s, it has been almost impossible to find supplies. Wholesalers have so much demand for them that they almost always have commitments to deliver coins that they haven't purchased yet. Last week, we were fortunate to acquire a modest hoard at the wholesale bid side and pass the savings along to you..

The Month

Gold Range	$ 8.25	2.9%
Net Change	+4.00	
Silver Range	.28	5.4%
Net Change	+.03	
Gold/Silver Ratio	54.7	
Net change	+0.5	
Platinum Range	74.00	18.0%
Net Change	+54.00	
Platinum/Gold Ratio	1.64	

Date	Gold	Silver	Platinum
Jan 05	281.00	5.18	412.00
Jan 06	281.50	5.14	392.00
Jan 07	282.00	5.16	394.00
Jan 10	281.75	5.15	394.00
Jan 11	283.50	5.16	398.00
Jan 12	282.75	5.11	403.00
Jan 13	284.00	5.12	404.00
Jan 14	283.75	5.09	409.00
Jan 17	closed		
Jan 18	288.50	5.12	415.00
Jan 19	289.25	5.13	428.00
Jan 20	288.50	5.22	425.00
Jan 21	289.00	5.23	428.00
Jan 24	287.75	5.25	434.00
Jan 25	286.25	5.28	441.00
Jan 26	286.25	5.24	434.00
Jan 27	286.75	5.37	446.00
Jan 28	283.00	5.29	450.00
Jan 31	283.25	5.27	454.00
Feb 01	282.25	5.21	452.00
Feb 02	285.00	5.21	466.00

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

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

Platinum Soars!

With the change in Russia's president, there was some hope that held-up supplies would quickly come onto the market. When that did not happen, platinum prices jumped almost 19% from its early January lows.

This market is too volatile now for me to recommend platinum purchases—too much risk of loss. If you are in the market for precious metals, gold and silver are a lot more safe.

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