

# Liberty's Outlook

Our 30th  
Anniversary!  
1971-2001

Volume 7 Issue 2 Liberty Coin Service's Monthly Review of Precious Metals and Numismatics February 7, 2001

## Lower-Risk Opportunities In U.S. Rare Coins!

### P.4 Silver Jumps Almost 6% In Five Trading Days!

"What are the best coins to buy for future appreciation?"

Lately, customers have been asking us this question almost every day.

In general, what customers want to know is what we recommend for a shorter-term (two to three years) numismatic portfolio, using a conservative approach that tilts toward greater safety and liquidity.

In January, our monthly numismatic sales were perhaps the highest they have been in several years.

I can certainly understand this growing enthusiasm for investing in rare coins. Here are a few reasons:

**1. Rising Demand.** The new Statehood Quarters and the Sacagawea "Golden" Dollar have introduced and reintroduced millions of collectors to the hobby. That enhances prospects for future appreciation.

**2. Prices Are Low.** The numismatic market is emerging from the bottom of the latest market cycle. Prices on a number of coins have dropped by 50%, 60%, 70%, and even more than 80% from the last major peak. Prices today are just plain cheap (lower risk) in comparison to the past. Existing collectors have been snapping up bargains as fast as they can find them.

**3. Tight Supplies.** Here's an actual example. In the early 1990s, if we wanted to acquire 500 pieces of Gem Mint State-65 Morgan Silver Dollars, there were at least three different wholesalers who each would have this many in stock for immediate delivery.

We cannot do that anymore. About a year ago, we tried to accumulate just 200 specimens and had to assemble this quantity from four dealers with waits up to three weeks for them

to get enough coins back from the grading service!

**4. Low Gold And Silver Bullion Prices And Physical Supply Shortages.** Gold and silver prices are close to their lowest levels since the 1970s. Low prices have spurred record industrial demand and also discouraged the development on new mines. Both metals have undergone multi-year major shortages of physical supplies to cover demand. Inventories have dwindled.

The only way to cure these shortages is through higher gold and silver prices. When bullion prices rise, they typically also boost numismatic prices in their wake.

**5. Shaky stock markets.** In 2000, stock market indices declined. Prospects for 2001 are not that much better, despite the almost panicky steps taken by the Federal Reserve Board in January to knock down the prime interest rate a full percentage point. With the rare coin market doing better than stocks in 2000, it is now attracting investment funds away from the stock market. It would only take a tiny fraction of 1% of stock market assets to be diverted into numismatics for the rare coin market to soar.

There are drawbacks to rare coin investing. Because they are much smaller markets than, for instance, gold and silver bullion, the spreads between buy and sell prices are wider. Rare coins are not as liquid as bullion-priced products. You need to be careful about obtaining solid quality.

Keep in mind that the most conservative approach to a hard asset portfolio has only bullion-priced products. For most investors, we recommend that no more than 10% of your hard asset holdings be in numismatics. Even for aggressive investors, we suggest a maximum of only 25% be in numismatics.

Given those cautions, I think there are am-

ple opportunities for attractive appreciation in some lower risk, popular numismatic categories.

Generally, United States coins are more liquid than foreign. That is because there are more collectors of U.S. coins than for coins of any other nation. Therefore, we recommend seven categories of United States coinage where we anticipate that carefully selected coins will outperform the rare coin market averages—with lower than average risk.

The seven categories, along with the percentage of your total numismatic portfolio we suggest for each, are:

- ✓ High Grade Common Date Gold Coins, \$1.00 through \$10.00 (15-25%)
- ✓ Better Date Gold Coins, \$1.00 through \$20.00 (10-20%)
- ✓ Gold Commemoratives, 1903-1926 (10-15%)
- ✓ Better Date/Grade Morgan and Peace Dollars (15-25%)
- ✓ Better Date/Grade Minor Silver Coins (10-20%)
- ✓ Silver Commemoratives, 1892-1954 (10-15%)
- ✓ Copper and Nickel Coins and Special Opportunities in Other Coins (5-10%)

### Why These Recommendations?

These categories each have their own reason for our recommendation:

**Common Date Gold Coins \$1.00 Through \$10.00.** We recommend primarily coins in the MS-62 through MS-64

(Continued on page 2)

Inside this issue:	Palladium And Platinum "Cool Off"	page
3	Traders Covering Gold Short Positions	page 3

(Continued from page 1)

grades. There were two major booms in common U.S. gold coins in the 1980s, and one lesser boom in the early 1990s. Prices today are substantially lower. When I did an analysis of all U.S. gold coin types in 1998, I examined price history, available supplies, and current prices. Virtually all of the lower denominations show better appreciation potential than \$20.00 Double Eagles.

### Better Date Gold Coin \$1.00

**Through \$20.00.** A number of better-date gold coins can be acquired for little more than the price of common issues, even though they have many times the rarity. Our general recommendation is to select coins that trade at small premiums to common dates rather than major rarities that sell for high prices. We set the dividing line between the two groups at about double the price of common-date coins.

### Gold Commemoratives, 1903-

**1926.** There were nine different commemorative gold dollars and two commemorative quarter eagles issued from 1903-1926. Mintages are tiny, ranging from 5,000 to 17,500 for ten of the coins and still only 46,019 for the \$2.50 Sesquicentennial. Even with such limited supply, prices typically range from a bit below to just above common-date gold dollars and quarter eagles issued for circulation. Right now, many issues can be acquired for a discount to type gold coin prices. We recommend many issues in MS-63, MS-64, and MS-65 quality.

### Better Date/Grade Morgan and

**Peace Dollars.** Among serious adult collectors, Morgan and Peace Dollars are probably the most popular of all U.S. coins. Estimates vary, but there could easily be 10,000 collectors working on MS-65 sets *before you include the recent infusion of new collectors*. The appeal is obvious—they are large, beautiful, and historic. The U.S. Mint kept large quantities of many dates in their vaults, finally releasing them to the public in the 1960s and 1970s. Because of this, many of these coins are among the most affordable coins in Mint State condition from the late 1800s and early 1900s. They have the best liquidity of non-gold U.S. coinage.

The particular coins we recommend are better dates that are much rarer than their relative price to common is-

sues would indicate. There are a number of MS-65 Morgans that can be acquired for less than \$200 that are quite difficult to locate. Almost all of them are now priced 70-90% below their peak. We really like coins that now sell for less than \$600 apiece.

### Better Date/Grade Minor Silver Coinage.

Like Morgan and Peace Dollars, there are smaller silver coins that now sell for small fractions of their peak prices, yet they are much more difficult to locate than their relative price would lead you to expect. Among the coins we recommend for this category are Common-Date Walking Liberty Half Dollars in MS-66 and MS-67 quality, Better-Date Walking Liberty Halves in MS-65 and possibly lower grades, Proof Walking Liberty Halves and Mercury Dimes in Proof-65 and higher quality, and common and better date Standing Liberty Quarters in MS-64 and higher condition.

These are all coins that were not stored in government or bank vaults in large quantities. As a result, they are much scarcer than high grade Morgan and Peace Dollars. Yet prices are reasonable.

### Silver Commemoratives, 1892-1954.

In what is now called the Classic Era of U.S. Commemoratives, the Mint Struck a total of 144 different dates and mintmarks of 50 different coin designs. Many coins have breathtaking low mintages, starting at just over 2,000, with 70 having fewer than 10,000 struck!

The Commemorative market is down dramatically from the last major peak. As a result, it is almost impossible to find nice specimens. Price declines have hit hardest at the top end. Therefore, we typically recommend coins in MS-65 or higher quality. We also recommend obtaining a variety of coins rather than multiples of a single date.

### Copper and Nickel Coins And Special

**Opportunities In Other Coins.** There are a number of copper, nickel, and early silver type coins that are exceptional bargains today—if you can find them. On occasion, special opportunities present themselves.

In general, our copper coin grading standards are much stricter than those of the major coin grading services. That limits the number of copper coin bargains we can pick up.

Among nickel coins, we recommend Buffalo Nickels in Proof-65 and higher grades, Three Cent Nickels, Shield Nickels, and Liberty Nickels in high Mint State or Proof condition.

Many silver coins from the 1800s and even 1700s now trade at a tiny fraction of their peak prices. Although they are not as popular as coins in the previous categories, you can find some outstanding bargains on older coins in amazing condition.

Then there are special opportunities. Here's one current example: The largest wholesale market maker for modern Gold Commemoratives has temporarily stopped buying more stock, which has happened periodically in the past. Right now, you can acquire these coins at attractive prices. I expect this window of opportunity to close in a month or so, but right now you can get a great deal—if you can find some.

### Other Guidelines

**1) For high-grade coins of \$100 or more, look for coins that are certified by the top grading services.** For the past 15 years, the Professional Coin Grading Service (PCGS) and Numismatic Guaranty Corporation (NGC) have been the overwhelming top choices. Since it was founded two years ago, the Independent Coin Grading Company (ICG) has also taken a substantial portion of the certification market. Typically, coins in these holders will trade more readily than either coins certified by less popular services or uncertified coins.

### **2) Buy the coin, not the holder.**

Not all certified coins with the same grade are created equal. And some grading mistakes occur. Our attitude is to only accept coins that stand on their own merit, not just on what the label says.

**3) Buy coins that you want to own personally.** If you personally find a coin interesting and fascinating, it is much more likely that there will be another interested collector down the road when you want to sell.

### **4) Analyze past and present demand, supply, and price trends.**

Consult technical data such as mintages, certified population reports, *Red Book* and *Trends* catalog values, and specialized references. We augment this information by staying in touch with market trends from dozens of dealers and wholesalers around the country.

Our combined almost two centuries of numismatic experience among our

(Continued on page 3)

(Continued from page 2)

staff also helps to evaluate and anticipate intangible factors such as shifts in collector interest.

**5) Be patient and selective.** Although it may be difficult to locate any particular bargain, it is possible to find many potential bargains with patience and persistence. There are enough great values around to fill everyone's budget. If you wish to spend a sizeable amount, we think you can do better by spreading your purchases over time, rather than all at once.

**6) Be careful with market-breaking quantities of any particular issue.** A good example is the 1901 \$20.00 Liberty, which has the third lowest mintage of all \$20.00 Liberties in the last 15 years of production. Several years ago, a hoard of lovely Mint State specimens hit the market. They were sold by one of the largest coin telemarketers at prices we considered to be too high relative to the common 1904 \$20.00 Liberty. The certified population reports reveal that the 1901 \$20.00 Liberty is now the 2nd most common on all \$20.00 Liberties in high grade! We occasionally find a nice MS-63 specimen for a client at the very same price as the 1904. There is little reason to pay any premium.

## Conclusion

From years of experience with the ups and downs of numismatic cycles, we feel there are a number of profitable opportunities in rare coins today.

**Over the shorter term, we expect the coins meeting the above criteria will outperform rare coins in general any may also do better than many forms of intangible investments.**

In our monthly offerings, we try to include many coins that fit within these recommendations. At your request, we can also offer other coins from our existing inventory and can locate others on the wholesale market. Call, write, or come visit our store for assistance.

## Palladium and Platinum Markets "Cool Off"

After more than doubling in price during 2000, palladium rocketed above \$1,000 during January. As soon as we were able to pay customers over \$1,000, we started purchasing a lot more product.

However, two developments have kept prices from rising further.

First, General Motors announced that

it would be changing the catalytic converter technology to reduce the 1/10th of an ounce of palladium now used in the average vehicle by 50% by 2003.

Second, some Russian palladium supplies were actually delivered to Japanese industrial users in January. This is the earliest the product has been delivered on an annual contract since 1997. In 2000, for instance, the first shipments were delivered in September.

The shipment of palladium also cast a negative pall on the platinum market. As you can see in the chart on the last page, platinum's price is down more than 5% from four weeks ago.

## Gold and Gold Coins

Gold finished today at \$263.25, down \$1.75 (0.7%) from last month.

The biggest news to affect the gold market was the tragic earthquake around Gujarat, India. Gujarat is the center of one of the strongest gold buying regions in India, the world's largest gold consuming nation. Analysts expect that not only will gold demand be weak in the region for some time, but a lot of gold will be sold to help recover from the devastation (a perfect reason for owning gold for insurance purposes, by the way). The best guesses, reported by Reuters, are that gold demand in India may decline 10-15% from last year's levels.

The January Bank of England gold auction gave the market some life when the 25 tons sold for \$268.00, a surprising \$1.50 above the prevailing spot price at the time. Since then, paper traders with short positions have been buying to cover their contracts.

Just last week, for example, almost 7% of the open contracts on the COMEX were closed. While traders were scrambling to find physical metal to cover their short positions, the one month gold lease rate jumped 33% last week! Even the 12-month lease contract rate rose 4.5%, from 1.12% to 1.17%.

When it seemed that the shortage of physical gold might finally push prices back up above \$270, two major gold mining companies announced two days ago that they were expanding their sales of future production. Gold has dropped almost 2% since last Friday's close.

Before the bad news from India, it seemed that gold below \$270 was not sustainable. At such low prices, mines are cutting back production or closing entirely. New development projects are

being put on the shelf. Newly mined supplies have barely covered 60% of industrial and coinage demand for the past several years. It will take a lot higher price than \$270 to bring supply back up to equilibrium.

The decline in demand from India will have more of a psychological impact than a significant effect on the supply and demand imbalance. At worst, I think that the earthquake will postpone the recovery in the price of gold.

What does this all mean for the future of gold? In my view, it is a real bargain right now. I hesitate to make any forecasts for how soon or how much appreciation gold may enjoy in the future. But I certainly think everyone should have some as part of their net worth.

The best buys are the U.S. **American Arts Medallion** (2.7%), Austria **100 Corona** (2.9%), South Africa **Kruegerrand** (3.1%), and Mexico **50 Peso** (4.0%).

Among the smaller gold coins, the British **Sovereign** (6.1%), French **20 Franc Roosters** (7.8%), and Swiss **20 Francs** (7.8%) have the lowest premiums. However, these premiums could rise quickly if significant buying develops in Europe in response to the price of gold declining against the Euro.

As I warned last month, the rise of the Euro has increased the price for **Common-Date U.S. Gold Coins** coming out of European vaults. Supplies are diminishing and prices in the U.S. are up slightly overall. I would recommend them but for the even greater appeal of **Better-Date U.S. Gold Coins**. We were unable to find any hoards in the past month, but did pick up several One-Of-A-Kind Bargains. See our offering for details.

## Silver and Silver Coins

Silver closed today at \$4.61, up eight cents (1.8%) from four weeks ago.

Silver actually jumped almost 6% in the five trading days after the last newsletter.

The price of silver was ridiculously low at \$4.53. Physical supplies were so tight that refiners were (and still are) offering well above spot price to obtain silver to refine. It was obvious that the market for physical silver had disconnected from the spot prices largely determined by paper contract trading. The quick price jump merely brought the silver price back to real world levels.

When the price of silver bumped into a

(Continued on page 4)

(Continued from page 3)

major resistance point of \$4.80, it stalled. As a rough rule of thumb, any major move in precious metals that holds for three trading days is much more likely to portend a long-term move than shorter spikes or dips.

This time, silver closed between \$4.75 and \$4.81 for 12 consecutive trading days! Though silver retrenched this week in sympathy with the decline in gold (and the likely decline in demand for silver in India), I would not be surprised to see silver blast above \$4.80 to stay in the not-too-distant future.

Higher silver prices brought out some physical silver. The premium on U.S. **90% Silver Coin** (6.0%) declined enough that it is now selling for less than it was six weeks ago at a lower silver price! As it costs virtually the same as **One Hundred Ounce Ingots** (5.9%), this is the form I now recommend because of its greater divisibility.

Demand for 2001-dated U.S. **Silver Eagle Dollars** (48.8%) has been so strong that premiums have actually increased from last month! They are proving to be a lot more popular among the newest collectors than I realized. As the early year rush is satisfied, though, I look for premiums to decline.

**Common-date average circulated Morgan and Peace Silver Dollars** (116.9%) are now up almost 20% in the past three months. A major telemarketer has a big campaign promoting these coins (at too high prices) as an excellent way to profit from rising silver prices. Their effort has moved a lot of coins off the market and helped boost prices. Unfortunately, not only are this company's customers paying too much for these dollars, they are also purchasing the wrong product!

If the price of silver rises sharply, the best forms of silver to own are bullion-priced products such as 90% Coin and Ingots. From past experience, I can tell you that rising silver markets have little impact on the price for circulated Morgan and Peace Dollars.

If you are interested in purchasing these popular coins, I have two better suggestions. First, the price of Mint State Morgan and Peace Dollar rolls have increased slightly, but not anywhere as much as the circulated coins.

## The Month

Gold Range	\$ 5.75	2.2%	
Net Change	-1.75		
Silver Range	.28	6.2%	
Net Change	+.08		
Gold/Silver Ratio	57.1		
Net change	-1.4		
Platinum Range	43.00	6.8%	
Net Change	-38.00		
Platinum/Gold Ratio	2.26		
Date	Gold	Silver	Platinum
Jan 10	265.00	4.53	632.00
Jan 11	264.25	4.56	619.00
Jan 12	264.00	4.63	623.00
Jan 15	closed		
Jan 16	263.50	4.67	619.00
Jan 17	263.50	4.71	614.00
Jan 18	264.25	4.79	597.00
Jan 19	264.50	4.75	607.00
Jan 22	266.50	4.78	613.00
Jan 23	266.50	4.77	611.00
Jan 24	264.25	4.76	597.00
Jan 25	264.50	4.78	607.00
Jan 26	262.75	4.81	603.00
Jan 29	262.75	4.80	589.00
Jan 30	265.50	4.80	592.00
Jan 31	265.75	4.80	593.00
Feb 01	268.50	4.79	590.00
Feb 02	267.25	4.77	590.00
Feb 05	265.25	4.68	597.00
Feb 06	263.75	4.66	598.00
Feb 07	263.25	4.61	594.00

London Silver Market Premium To New York Silver Market = 2¢

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

The less expensive **Mint State Peace Dollar Rolls** will more likely be forced up in price in the near future in reaction to the rising prices of circulated coins. We have the good fortune to pick up an original hoard recently that we can offer close to last summer's rock-bottom prices. See the enclosed flyer for details.

Alternatively, if you wish to try some outright numismatic coins, we have a handful of **Better Date MS-65 Morgan Dollars** that are among the dates we most highly recommend. Please refer to our offer for specifics.

A warning about these offerings is in order. They will likely sell out quickly, so

call in your orders soon.

## One More Reason To Own Gold

Back in the 1980s, a nonprofit organization run by some acquaintances of mine received a donation of five 1 Oz Gold Krugerrands. Rather than cash them in, they stored them in a safe deposit box.

A county official suspected that illegal activity was occurring at the organization's premises. In the resulting police raid, no evidence of criminal activity was found. Still, the president, three employees, and two visitors were arrested. The computers and office records were seized.

The president called the vice-president (who was late for work that day) from the police station. The vice-president picked up the Krugerrands and used them to pay the retainer fee to an attorney.

All charges against the organization and the individuals were eventually thrown out of court, despite exhaustive efforts by the government official. In fact, the organization was successful in all but one of its suits to recover legal fees from the county government. The official was soundly defeated in his re-election bid.

Pray you don't have such a calamity. But it is nice to know that gold might protect you in ways other than financial.

## More Financial Privacy Lost

The U.S. Customs Service has imposed new entry document requirements. Now, Americans who purchase goods from businesses with overseas addresses, such as foreign mints, are required to provide their Social Security or Federal Employer Identification Number on the order form. This number will be included in the documents accompanying the merchandise through Customs inspection.

Though these numbers are supposedly only for Customs Service purposes, all sorts of public and private mayhem becomes possible when your Social Security number goes off around the globe.