

# Liberty's Outlook

Volume 9 Issue 2 Liberty Coin Service's Monthly Review of Precious Metals and Numismatics February 5, 2003

## Gold Climbs To Six Year High! Rare Coin Demand Up Sharply! Prices Rising! Chinese Government, Citizenry Buying Huge Amounts Of Gold P. 2 U.S. 90% Silver Coin Shortage Developing, Premiums Rising

When gold closed yesterday at \$378.75, that was its highest close since it settled at that price on November 20, 1996!

From a low of \$255.50 on February 15, 2001, gold has increased 48.2% through yesterday!

While gold was reaching new heights, there was also plenty of action in other precious metals and in rare coins. Palladium obviously declined too far by the end of December. It has enjoyed a 13% bounce since then. This rise helped support a comparable rise in the price of platinum to its highest level in more than 22 years!

While silver was up "only" 2.3% for the first five weeks of 2003 through yesterday, it looks a lot better when compared to the decline in value of the U.S. dollar and in U.S. and world stock markets.

Even rare coins have enjoyed significant one-month price increases, with the 8-coin U.S. Gold Type Set in Mint State-64 up 16%! While gold coins led the way in price increases, activity is stirring in silver and other coins as well.

Are all these prices rising because of the threat of war with Iraq? Are we near a major market top? Or are we still in the early stages of the next major bull market for tangible assets such as precious metals and rare coins? In my judgment, from the perspective of a rare coin collector with almost 40 years of experience and an investor in precious metals for 30 years, my answers to these questions are 1) only slightly, 2) no, and 3) almost certainly.

### The Situation Now

**Gold:** Wars have proved unresponsive of the price of gold in the past decade or so. When the U.S. invaded Grenada, gold spiked \$20 on Saturday and gave it

all back on the following Monday.

After the U.S. and its allies began bombing Iraq in Operation Desert Storm on the night of January 16, 1991, the price of gold fell in U.S. markets from a close of \$402.50 on January 16 to settle at \$374.00 on January 17. By the time ground action started in February, gold had fallen into the \$350s.

This time around, the price of gold has been climbing for reasons having little to do with the situation in Iraq, North Korea, or Israel and Palestine. Instead, there are simply shortages of supply along with robust demand for physical gold. These conditions will still exist even if there is a war with Iraq.

Many gold mines have been trying to cut their losses or improve profits by delivering newly mined gold against outstanding pre-sold contracts. That reduces the amount of newly mined gold that is available as new supplies.

The central banks supposedly have about a billion ounces of gold holdings. However, much of it has been leased and is no longer in their vaults. Getting accurate data is difficult. Nonetheless, at the minimum, researchers conclude that at least 20% of central bank gold holdings have been leased. Some researchers conclude that central banks may have leased as much as 50-75% of their entire holdings!

Even if central banks had gold available to lease, there is little demand. Potential borrowers don't want the risk that the gold they must repay at the end of the lease will be much higher in price than at the lease's inception. And with

### Year To Date Results 2003

(through February 4, 2003)

<i>Precious Metals</i>	
Platinum	+13.1%
Palladium	+13.0%
Gold	+9.0%
Silver	+2.3%
<i>Numismatics</i>	
US MS-64 \$20 St Gaudens	+17.2%
US MS-64 \$20 Liberty	+16.7%
US MS-65 \$20 St Gaudens	+16.3%
US MS-63 \$20 St Gaudens	+14.3%
US MS-63 \$20 Liberty	+14.3%
US MS-65 \$20 Liberty	+14.1%
US MS-64 Peace Dollar	+5.6%
US MS-65 Peace Dollar	+4.3%
US MS-64 Morgan Dollar	+2.3%
US MS-65 Morgan Dollar	+2.3%
<i>US Dollar vs Foreign Currencies</i>	
Japan Yen	+0.8%
Great Britain Pound	-2.4%
Euro	-3.6%
Switzerland Franc	-3.9%
<i>US Stock Indices</i>	
NASDAQ	-2.2%
S&P 500	-3.6%
Dow Jones Industrial Average	-3.9%

the 12 month gold lease rate quoted by Reuters now just 0.31%, there is little incentive for central banks to lease gold and assume a risk of default by the borrower. As a result, central bank gold leasing activity is now stabilizing, if not actually declining.

Even though the price of gold has risen in the past twelve months, it will take three to five years for the mining industry to gear up for higher output.

Taking all these factors together, gold supplies are tight now, a condition that will not change regardless of what happens with Iraq.

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On the demand side, the biggest surprise in the past year had been the soaring demand for gold in China, both by the government and by private citizens.

In early January, the Chinese central bank reported that gold reserves had climbed to 19.3 million ounces by the end of December, up from 16.1 million ounces at September 30, 2002 and up at least 50% from year-earlier levels.

To most countries, adding a billion dollars of gold reserves every three months might seem a lot. But when you consider that China's government has a massive hoard of \$270 billion in foreign exchange and gold reserves, which is increasing by several billions of dollars a quarter, these large acquisitions are actually a conservative increment in their gold reserves.

On a worldwide basis, however, the Washington Agreement on Gold limits official sales of gold to 12.8 million ounces per year. The signatories and associates to this agreement possess 85% of the world's official gold holdings. **So, all by itself, for the past six months China has been buying gold reserves equal to or greater than the amounts being sold by other governments under the Agreement!**

Now, these are only the purchases being reported by the Chinese government. It would not surprise me one iota to find out that they are actually adding

much more gold reserves than they are reporting.

Beyond gold purchases by the Chinese government, though, is soaring demand from China's private sector. The Shanghai Gold Exchange began operations in 2002, providing a means for private citizens and companies to buy and sell gold at very close to world prices. Two months ago, the Exchange reported that domestic supplies of gold were inadequate to meet demand and that rules would be changed to allow foreign companies to trade on the Exchange (basically to expedite imports into China).

On top of strong Chinese demand, Russia recently reported that 48% of their reserves were held in US dollars. They plan to reduce that percentage by replacing dollars with other currencies or gold.

Demand for physical investment gold has picked up, as shown by rising premiums for several bullion-priced coins that are not in current production.

I think gold in the \$370s is still a bargain compared to what we will be seeing in the not too distant future. At a recent conference in Vancouver, long-term gold mining stock expert Bob Bishop predicted that gold will top \$1,000 within three years. Just this morning, Ian Henderson, veteran manager of JP Morgan Fleming's Natural Resources Fund said, "We're so far

away from (the end of the run in gold prices)."

I expect gold to easily top \$400 in the near future. It is entirely possible that gold could reach \$500 by year end.

**Silver:** Although silver is stronger than it was a few months ago, it has been stagnant compared to gold. Prices still have not returned to last May's levels.

Since most demand for silver is for industrial fabrication, I didn't really look for prices to do anything exciting in the near term. However, we could see a rise sooner rather than later in sympathy with rising gold prices.

Precious metals investors often own both gold and silver. When one rises significantly more than the other, many of these investors then consider the laggard to be an undervalued bargain. In one sense, it could be looked at as getting a second chance to catch a rising market after you missed out on the first one.

I see definite signs that this may be happening now. While the price of silver has been relatively quiet, the premium for low-cost physical silver has been rising for the past six weeks.

In November, when we looked to liquidate a handful of bags of US 90% Silver Coin, we found wholesalers to be skittish. They had plenty of inventory and didn't really want to add more at their bids. The bids were really meant

## Examples Of Today's Rare Coin Bargains

Even though prices on many rare coins are higher than they were a few months ago, I believe we are still at bargain-basement levels compared to what we might see in the next few years.

How high can rare coins rise? Only the future will tell for sure. As a general trend, most new market peaks surpass the prior peak. So, to give you some idea how much room there is for appreciation, here are some comparison's between prices today and what the same coin would have cost back at the last major market peak in June 1989.

Coin	MS Grade	June 1989	Today
<u>U.S. Gold Type Coins</u>			
\$2.50 Liberty	63	\$2,550	\$825
\$2.50 Indian	63	\$2,400	\$950
\$3.00 Indian	63	\$11,600	\$4,750
\$5.00 Liberty	63	\$3,550	\$700
\$5.00 Indian	63	\$6,600	\$1,125
\$10.00 Liberty	63	\$3,825	\$875
\$10.00 Indian	63	\$3,025	\$795
\$20.00 Liberty	63	\$1,800	\$795
\$20.00 St Gaudens	63	\$970	\$600

\$2.50 Liberty	64	\$4,850	\$950
\$2.50 Indian	64	\$5,150	\$1,275
\$5.00 Liberty	64	\$7,850	\$1,125
\$5.00 Indian	64	\$13,600	\$2,850
\$10.00 Liberty	64	\$7,950	\$1,375
\$10.00 Indian	64	\$7,625	\$1,400
\$20.00 Liberty	64	\$4,700	\$1,400
\$20.00 St Gaudens	64	\$1,800	\$750
<u>U.S. Classic Gold Commemoratives</u>			
1915-S \$1 Pan-Pac	63	\$2,450	\$575
1916 \$1 McKinley	63	\$2,350	\$595
1926 \$2.50 Sesqui	63	\$1,825	\$595
1903 \$1 La Purch-Jeff	64	\$4,900	\$1,850
1904 \$1 Lewis/Clark	64	\$9,400	\$4,500
1922 \$1 Grant	64	\$6,850	\$3,000
<u>U.S. Better Date Morgan and Peace Dollars</u>			
1880	65	\$7,750	\$750
1884	65	\$1,475	\$255
1885	65	\$720	\$110
1888	65	\$1,150	\$195
1889	65	\$2,450	\$300
1896	65	\$1,225	\$155
1897	65	\$1,875	\$230
1898	65	\$1,600	\$200
1900	65	\$1,325	\$185
1900-O	65	\$850	\$130
1901-O	65	\$1,425	\$165
1902-O	65	\$1,125	\$130
1903	65	\$1,600	\$205
1903-O	65	\$2,100	\$480
1921 Morgan	65	\$815	\$130

1921-D	65	\$2,050	\$290
1926	65	\$1,825	\$350
1927	64	\$1,530	\$250
1935	65	\$3,150	\$620
<u>U.S. Classic Silver Commemoratives</u>			
1936 Albany	66	\$6,300	\$725
Arkansas Type	65	\$1,900	\$205
1936-S Bay Br	66	\$3,250	\$575
Boone Type	66	\$1,975	\$285
1936 Cleveland	65	\$2,175	\$220
1936 Gettysburg	66	\$8,100	\$870
1946 Iowa	66	\$1,450	\$140
1936 Long Is	65	\$3,150	\$390
1934 Maryland	65	\$2,225	\$330
1928 Oregon	66	\$3,200	\$440
1935-S San Diego	66	\$3,150	\$220
Texas Type	66	\$1,900	\$220
1936 Wisconsin	66	\$3,600	\$365
1936 York County	66	\$2,450	\$240
<u>Other U.S. Coins</u>			
3¢ Nickel Proof	65	\$2,475	\$485
Liberty Nickel, NC	65	\$1,950	\$240
Std 1/2D, Leg Prf	64	\$2,375	\$560
Seated Dime, Leg	64	\$1,575	\$400
Seated Qtr, NM	64	\$6,750	\$1,075
Barber Qtr Proof	64	\$3,125	\$850
Barber Half	65	\$8,850	\$2,750
1945 Walker Half	65	\$620	\$140
Morgan \$ Proof	65	\$13,000	\$5,500

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to support their asking prices.

When we checked over the past two weeks, we found the situation almost totally reversed. Dealers had little 90% Coin in stock and were quoting relatively low asking prices to justify their bid prices.

In our own company we noticed that the quantity of physical silver being purchased from us by retail customers is far greater than what the public is selling to us. This is a significant change from our typical silver bullion flow in the past few years.

So, even though it looks like industrial demand won't recover to spur higher prices in the next few months, the investment demand for silver as an alternative to purchasing gold just might get prices to rise in the short term.

If the price of silver doesn't climb soon, it is bound to do so when the economy eventually recovers. Even at lower demand levels that we have seen in the past year or two, there is still a huge shortfall of silver supplies to cover that demand. Available inventories continue to shrink. So, even if silver doesn't make a quick move, I expect it to rise to between \$10.00 and \$20.00 within the next few years.

**Platinum and Palladium:** I am surprised to see these two metals already above my anticipated yearly highs.

Since these are almost exclusively industrial metals, I thought prices would be stagnant until the economy showed signs of recovery.

I haven't seen any substantive discussion of what has happened. If I were guessing, there would be some chance that defense contractors might be stocking up in anticipation of new orders for war materials.

Another possibility is that price of palladium fell so far by the end of last year that it overshot the long-term equilibrium level, prompting bargain buying. As palladium rose, that supported higher platinum prices.

To me, platinum still appears overvalued compared to gold or silver. Yesterday platinum reached its highest price since late 1980! From here, I think there is potential for prices to drop from current levels, given the lack of hard news about falling supplies or rising demand. If I owned any platinum personally, I would either sell it or trade it for silver, gold, or rare coins.

**Rare Coins:** The rare coin market enjoyed more price increases in January than in any month in the last six years!

Part of the push to higher levels was prompted by rising gold prices. The other factor supporting the market is the lack of available inventory. Inventories have been low for the past several years, but the real impact of tight supplies was not felt until the major moves in gold spurred buying interest.

In January, for example, we sold more U.S. \$20.00 Double Eagles to customers than we have in years—and we didn't have any featured offering of them in last month's newsletter. They literally sold as fast as we could get them in.

The price increases were not exclusive to gold coins, though. Many other coins also rose as some collectors and investors tried to get in ahead of rising prices.

Even though prices are up some, there is still room for enormous appreciation in the next few years. At the bottom of the previous page, I list a number of examples of coins that I consider to be stunning bargains today.

Even the market for State Quarters jumped in January. Wholesale prices for the Kentucky and Tennessee Quarters minted in Philadelphia jumped 30-50%!

Just before closing off sales last week, the Mint announced that sales of 2002 Sacagawea Dollars were much lower than expected. Don't be surprised if these Golden Dollars surge in price over the next months.

The price of gold and of common-date US Gold Coins has risen so fast that it has disrupted the market for the Better-Date US Gold Coins that sell close to the prices of common issues. Wholesalers are jacking up their selling prices faster than their bids. I expect this anomaly to correct over the next few months. In the meantime, there is always the possibility of being able to find an occasional bargain out there. See our flyer on the **Near Perfect Proof-69 Deep Cameo 1987-W \$5.00 Constitution Gold Commemoratives** for a perfect example.

Talking about certified modern issue commemorative and bullion coins, by the way, I do have some cautions. These coins were sold in protective cases directly or almost directly to collectors. As a result, almost the entire mintage of such coins has survived and

survived in beautiful condition.

Coins graded Mint State-70 or Proof-70 are theoretically in perfect condition. The grading services call relatively few coins a "70." Some dealers saw an opportunity of certifying Gold, Silver, and Platinum Eagles and the modern U.S. Commemorative Coins, then trying to sell the -68s, -69s, and -70s as being rare coins.

In almost all such circumstances, high quality specimens of these coins are widely available. Sending the coins to the certification services is rarely worth what it costs for that service. If you see offers for such coins at inflated prices, don't waste your money.

However, if you are able to get these high-end coins without paying much extra for the certification, then definitely consider it. The \$5.00 Constitution offer mentioned previously is just such an example.

While I think that the rare coin market offers exciting appreciation prospects in the next few years (and may well outperform gold or silver), it is not for everyone. The greater potential gain also carries a higher risk of loss than for bullion. The buy/sell spreads are wider. You have to be more careful to assure that you are receiving solid quality merchandise than you do for bullion. And you have to pick the right coins. If you are uncomfortable with these higher risks, then rare coins are not for you.

Even if you do like rare coins, we conservatively recommend that they make up, at most, 25% of your hard asset holdings.

If rare coins are for you, just look at our monthly offerings or call for other ideas.

## Gold and Gold Coins

Gold closed today at \$376.25, up \$22.50 (6.4%) from four weeks ago. Gold has come up \$54.00 in the past two months, its largest move over that time period in more than six years!

Normally when the price of gold rises so quickly, you find that premiums decline as supplies come onto the market. While there has been some liquidation, there has also been strong demand. Some European bullion gold coins such as the British **Sovereign** (7.5%), French **20 Franc Rooster** (8.9%), and the Swiss **20 Franc** (8.9%) have been surprisingly difficult to find, even at today's higher premium levels.

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Even the lowest premium forms of physical gold such as the U.S. **American Arts Medallion** (2.9%), Austria **100 Corona** (3.0%), and South Africa **Krugerrand** (3.5%) have seen premiums rise.

As I discussed earlier, it is evident that there is solid demand for physical gold. There has been a significant increase in demand from the Middle East recently. Demand in Europe has also picked up partly because the price of gold as reckoned in Euros has not risen so much as measured by the US dollar.

Most investors don't pay close attention to the gold market. They are peripherally aware about rising spot prices. Few go beyond the higher prices to see the important indicator that rising premiums for bullion coins are a signal that prices are more likely to rise in the near future than to decline.

One financial reporter, Richard Lancaster, recently said that mainstream investors won't pay much attention to gold until it reaches \$400. Once it does, he predicts gold will experience much more demand from novice investors who have just "discovered" gold as a diversifier for their investment portfolio.

Lancaster, reporting on last month's Vancouver Resource Investment Conference, noted that there were several exhibits by mutual fund companies there, but almost no representation by the companies that specialize in commodity-oriented funds. This contrasts with such conferences he attended in the 1970s, when most of exhibitors touted commodities and commodity funds and few represented stock funds.

As discussed earlier, the volume in **Common-Date U.S. Gold Coins** has risen sharply. We saw a few tight-fisted collector/investor customers who experienced sticker shock as prices rose. Invariably they soon came back when they found out that they could not obtain coins elsewhere for less.

Prices are up, but high grade pieces are still selling for a fraction of their past peak levels. As you can see from the list on page two, it is possible to acquire many coins at only 20-25% of their 1989 highs. For the past few years, the problem has been finding quantities of decent quality coins. It is

### The Month

Gold Range	\$28.00	7.9%
Net Change	+22.50	
Silver Range	.15	3.1%
Net Change	-.10	
Gold/Silver Ratio	79.0	
Net change	+6.2	
Platinum Range	69.00	11.3%
Net Change	+66.00	
Platinum/Gold Ratio	1.80	

Date	Gold	Silver	Platinum
Jan 08	353.75	4.86	612.00
Jan 09	353.25	4.85	612.00
Jan 10	354.50	4.86	616.00
Jan 13	354.50	4.84	615.00
Jan 14	352.00	4.76	614.00
Jan 15	350.75	4.77	612.00
Jan 16	357.75	4.83	617.00
Jan 17	356.50	4.80	622.00
Jan 20	closed		
Jan 21	357.00	4.81	625.00
Jan 22	359.75	4.84	634.00
Jan 23	364.50	4.80	638.00
Jan 24	368.25	4.88	635.00
Jan 27	368.50	4.82	639.00
Jan 28	370.00	4.87	639.00
Jan 29	366.25	4.80	650.00
Jan 30	368.75	4.86	658.00
Jan 31	368.00	4.85	662.00
Feb 03	370.75	4.83	668.00
Feb 04	378.75	4.91	681.00
Feb 05	376.25	4.76	678.00

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

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

even more difficult now than before. Call us for current inventory and prices.

It is occasionally possible to pick up bargains in world gold coins. We just picked up a modest group of **Brazil 1856 10,000 Reis Gold Coins** at an affordable price that belies their genuine rarity. Because we were able to acquire them at the bid side of the market, we are able to offer them at last year's price. See our flyer for details.

### Silver and Silver Coins

Silver settled today at \$4.76, down 10 cents (2.1%) from last month.

Even though the price of silver dropped by a dime, the solid demand for physical silver led to higher prices for U.S. **90% Silver Coin** (9.0%). In effect, the price of silver in

the form of 90% coin is up 10 cents per ounce while the spot price dropped. The same situation applies for U.S. **40% Silver Coin** (9.3%)—it is currently selling for one cent more per ounce than last month.

Both of these coins are still less expensive than **100 Ounce Ingots** (9.7%). Among these three choices, 90% Coin has greater liquidity and divisibility than the others, so I continue to give it my unqualified recommendation.

However, I suspect that premiums will keep rising for 90% Coin and 40% Coin. There is also some possibility that ingot premiums may rise, even if the price of silver climbs back over \$5.00.

Don't wait. Add to your silver bullion holdings sooner rather than later.

Demand for Mint State Rolls of coins remains strong. Prices have been too high on coins such as **Mint State Franklin Half Dollars** for us to recommend them. However, a fluke event occurred. A major wholesaler who makes a market in Franklins and other such product recently moved to larger quarters. To simplify the move, they discontinued buying most silver coins for a few weeks before their move. Their absence has led to some retrenchment in prices. We are trying to dig up some bargains, but supplies are hard to locate.

Demand is stronger for coins such as **Better-Date Morgan and Peace Dollars** and **Classic U.S. Silver Commemoratives**. They are incredible bargains today, but virtually impossible to locate. We just acquired the largest group of **Mint State 1888-O Morgan Dollar Rolls** in our history! When you check their price against the far more common 1881-S Morgan, you can easily see why collectors love these rarities. See our brochure for details.

It is also possible to locate bargains in world silver coins. We just acquired our largest group of **Canada 1971-1978 Gem Specimen-65+ Commemorative Silver Dollars**, for instance. They are each still in top quality in their original leather display cases. At one time they all sold for more than \$20 apiece, but we can offer them at significant price savings. See the enclosed flyer for details.