

# Liberty's Outlook

Volume 11 Issue 2 Liberty Coin Service's Monthly Review of Precious Metals and Numismatics February 2, 2005

## Rare Coin Rocket Ready To Blast Off!

### P. 3: U.S. Treasury Confirms It Has No Authority To Call In Gold!

To try to more accurately track the ups and downs of the rare coin market over time, Collectors Universe, the parent company of Professional Coin Grading Service (PCGS), created an index of 3000 U.S. coins in multiple grades.

By including so many different coins, this index, called the CU3000 Index, should present a smoother look at the overall market moves than would be evidenced by tracking only a handful of coins. (It also makes it more difficult for less-than-ethical dealers to use their own index to deliberately give a misleading view of the market).

The CU3000 Index is updated daily. At the right, I have listed how today's index compared with the Index from one year ago, from approximately ten years ago, from the last major market peak in mid-1989, and from the inception of the Index in January 1970.

As you can see, the overall index has risen 6,327% in the past 35 years, far higher than most paper assets.

The CU3000 index is also broken down into nine sub-categories, listed above, with 35-year track records of appreciation ranging from 1,410% for Morgan and Peace Dollars to 8,399% for Mint State Rare Gold Coins.

Past performance is no guarantee of future performance, especially since you see that eight of the nine sub-categories are still well below their 1989 peak! Still, an analysis of the past track record can help you better understand what may be ahead for the rare coins market. It also can give clues as to which areas of the rare coin market are likely to outperform the averages in the future.

### CU3000 Coin Index February 2, 2005

#### Price Changes Over Time

Category	Since Feb 2, 2004	Since Dec 1994	Since May 1989	Since Jan 1970
All U.S. Coins	+5.6%	+38%	-65%	+6,327%
Generic Gold Coins	+4.0%	+4%	-69%	+2,408%
Mint State Rare Gold	+7.1%	+25%	-69%	+8,399%
Proof Gold Coins	+15.6%	+50%	-56%	+3,467%
Mint State Type Coins	+7.3%	+44%	-64%	+6,977%
Proof Type Coins	+2.8%	+43%	-64%	+3,235%
20th Century Coins	+1.7%	+55%	-48%	+5,319%
Morgan and Peace Dollar	+3.9%	+38%	-68%	+1,410%
Silver/Gold Commemoratives	+1.3%	+13%	-72%	+3,289%
Key Dates and Rarities	+24.3%	+161%	+84%	+1,958%

Source: Collectors Universe website

### Looking Inside The Index

I was somewhat shocked to see that Morgan and Peace Dollars lagged the other categories in the 35-year results. But you have to put the analysis in the context of the times. I remember purchasing Mint State Morgan silver dollars for \$2.00 each in 1968, as part of my hard asset holdings to protect against inflation. Such coins today retail in the \$27-30 range, so they are up less than the overall Morgan and Peace Index.

In 1968, had I opted to purchase only top quality Morgans, which now grade Gem Mint State-65, I would have had to pay \$3.00 apiece. These same coins are now going for 50 times their 1968 price. Thus, you can see that some grades have performed better than others.

I think the major reason that the Morgan and Peace Dollar Index is at the bottom of the 35-year comparison is that those coins, along

with Generic Gold Coins, were heavily sought by hard asset investors back then. In effect, prices in January 1970 were higher than other categories, which would make the long-term appreciation lower.

In addition, the U.S. government disgorged 2.9 million Carson City silver dollars in mint state condition the early 1970s, creating a glut in the market. Further, the Redfield hoard of nearly a million silver dollars was auctioned in 1973, leading to huge increases in supply of some dates that were previously considered to be great rarities. The result of the increase in supply of Morgan Dollars was to hold down increases compared to January 1970. The three more recent comparisons show Morgan and Peace Dollars performing more in line with the other sub-categories.

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I am also surprised by the extent that Mint State Rare Gold Coins have far outperformed Generic Gold Coins. However, when you consider that huge quantities of common-date issues from foreign vaults returned to the U.S. after 1974, the disparity is understandable. Both categories have nicely outperformed the appreciation in gold bullion, which is up somewhere around 1,000% since the beginning of 1970.

The rare coin market before the late 1960s was dominated by collectors, with little influence from investor demand. As such, key date coins were already highly prized, relative to common-dates in Mint State or Proof condition. Key date coins took a back seat during the 1970s, relatively speaking, as investors jumped in to bid up the prices of common coins made of gold or silver.

It is of little surprise that the investor-spurred rare coin market peaks in 1980 and in 1989 affected the price of common-date coins—available in large enough quantities for major coin firms to promote—more than rare date issues.

Since the investor influence in the rare coin market largely departed by the mid-1990s, you again see that key date coins have returned to the forefront of the current collector-driven rare coin market.

### What Caused The 1980 And 1989 Major Rare Coin Market Peaks?

The past two major rare coin market peaks in 1980 and 1989 didn't just happen. A number of factors contributed to the surge in demand.

The CU3000 Index rose 1,195% from December 1975 to March 1980, then declined only 47% from April 1980 to June 1982. From July 1982 to June 1989, the Index rose 665%.

From July 1989 to December 1994, the Index dropped 74%, then has increased 38% since then.

From 1976 to 1980, there were a number of political and economic uncertainties. The stock market was down 27% by early 1978. Interest rates were volatile—the Fed changed rates 23 times in the 48

months, more than tripling the prime rate. The price of oil jumped 250%. President Carter suffered a crisis in confidence over his failure to resolve the Iranian takeover of the U.S. embassy and the holding its employees as hostages.

In response to all this uncertainty, the price of gold soared to \$800, platinum to \$1,000, and silver to \$50 in early 1980.

The resulting 1,195% increase in the CU3000 Index surpassed the appreciation of gold and platinum. Only silver, a smaller market that was caught in a supply squeeze, outperformed rare coins.

In the few years before the 1989 peak, the stock market crashed—losing 36% of its value in 55 days—climaxing with a 22.6% fall in the Dow Jones Industrial Average on October 19, 1987! The U.S. dollar started a decade-long decline in 1985. The Iran-Contra Scandal rocked confidence in the Reagan presidency. The Savings &

### Top Values In Morgan Silver Dollars Today!

Six years ago, I did a comprehensive analysis of every date of Morgan Dollar in Mint State-63, -64, and -65 grade, looking for the undervalued bargains. In the years since, almost all of these coins have appreciated; some have gone up to much that they no longer look like the best values from this time onward.

I recently completed (with the assistance of LCS Senior Numismatist Tom Coulson) an even more comprehensive analysis of the Morgan Dollar series, covering grades from Very Good through Superb Gem Mint State-66 quality. Among the factors checked were the changes in prices from the last major market peak in June 1989 and from the inception of the U.S. Statehood Quarter program at the beginning of 1999. Those comparisons showed that most coins in grades under Very Choice Mint State-64 are up 50% or more. Coins graded MS-64, MS-65, and MS-66 have also mostly appreciated over the past six years, but show more potential to rise in the future than the lower grade coins.

We narrowed our analyses to coins graded MS-64 to MS-66. We tabulated PCGS and NGC certified populations, compared catalog listings in *Coin Values* against relative rarity, and considered how much these coins appreciated in the boom market of 1989.

While virtually all Morgans are likely to appreciate in the next few years, there are several that look to be overvalued relative to other coins. This includes virtually all the Carson City issues in all grades and the 1894 and 1895-O dates. While I don't necessarily call for you to sell these coins now, you may want to consider swapping any of these coins for others with better potential.

Below I list the dates and grades that we give our highest recommendation (listed in **bold**) plus those that we recommend more than we like the prospects for other Morgans that we do not list. I have note the current *Coin Values* catalog listing to give you an idea of what to pay for these coins, but you can sometimes find better deals if you are patient.

Date	MS-64	MS-65	MS-66	Date	MS-64	MS-65	MS-66
1878 8TF	\$450	<b>\$1,400</b>		1890	<b>\$135</b>	\$3,000	
1878 7/8TF		\$3,500		1890-O		\$2,100	
78 7TF R79	<b>\$600</b>			1891	<b>\$600</b>		
1878-S		\$300	\$1,100	1891-O	<b>\$750</b>		
1879	<b>\$150</b>	\$1,300		1894	<b>\$7,500</b>		
1879-O	<b>\$550</b>			1896		<b>\$225</b>	\$800
1879-S R78	<b>\$1,500</b>			1897	<b>\$65</b>	\$275	<b>\$1,500</b>
1880	<b>\$140</b>	<b>\$900</b>		1898	<b>\$65</b>	<b>\$275</b>	\$1,650
1881	\$175	\$1,000		1898-O			\$450
1881-O	\$175			1899			<b>\$2,200</b>
1882	<b>\$65</b>	<b>\$475</b>	<b>\$2,000</b>	1899-O			<b>\$450</b>
1882-O	\$75	\$900		1899-S			\$3,300
1883		\$200	<b>\$450</b>	1900		<b>\$225</b>	\$900
1883-O		\$175	<b>\$450</b>	1900-O		<b>\$175</b>	\$750
1884	<b>\$65</b>	\$325		1900-S	<b>\$550</b>		
1884-O			<b>\$450</b>	1901-O		<b>\$250</b>	\$1,500
1885		\$175	<b>\$450</b>	1901-S	<b>\$1,000</b>	<b>\$4,000</b>	
1885-O			\$450	1902	<b>\$150</b>	<b>\$550</b>	\$1,500
1886			\$500	1902-O		\$175	<b>\$800</b>
1887/6	<b>\$1,200</b>	<b>\$4,500</b>		1902-S	<b>\$1,100</b>	<b>\$3,500</b>	
1887			\$450	1903		<b>\$325</b>	
1887-S			\$11,500	1903-O	\$550		\$1,100
1888		<b>\$275</b>	\$800	1904	<b>\$700</b>	<b>\$4,500</b>	<b>\$9,000</b>
1888-O	<b>\$65</b>	\$500	\$3,500	1921		<b>\$150</b>	\$1,200
1889	<b>\$65</b>	\$375	<b>\$2,800</b>	1921-D	<b>\$150</b>	<b>\$350</b>	\$1,400

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Loan Industry crisis, which seized public attention with runs on Maryland and Ohio institutions in 1985, reached a peak early in 1989 when President George H. W. Bush proposed a public bailout of \$30-50 billion (which, by the way, eventually cost taxpayers \$153 billion). The prices of gold and silver reached multi-year peaks in 1987, then stabilized. Inflation was rising, which spurred an increase in the number of gold and silver buyers. The price of oil was relatively steady during this time.

While all this was going on, the CU3000 Index rose 665%. Because of the widespread increase in the number of buyers of precious metals and rare coins, several Wall Street brokerages lined up to start funds to invest in rare coins. Individual collectors and investors jumped into the market ahead of this anticipated surge in demand, bidding up prices in the process. Like 1980, many rare coins prices were increasing 5-10% per week as the market neared the peak. When the amount of Wall Street investment funds turned out to be a fraction of expectations, the boom ended.

## **Similarities Of 1980, 1989, And Today**

As in 1980 and 1989, there are a multitude of economic and political uncertainties now. Many are similar to concerns in 1980 and 1989. Some are new.

Global terrorism. The stock market collapsed in 2000 and is in the doldrums. Housing markets in the U.S. and other nations that appear overheated. Volatile interest rates. The U.S. inflation rate has almost doubled in the past two years. The U.S. dollar is falling. The U.S. federal budget deficit and the balance of trade are at record high levels. The price of crude oil rose by 25% last year. Gold and silver have recently hit their highest levels since 1987 with platinum reaching its highest since 1980!

One new wrinkle is the growing number of coin collectors that were attracted by the U.S. Mint's Statehood Quarters program that started in 1999. These new collectors have already helped push up prices by moderate levels in the past few years.

Just looking at all these factors, the time looks ripe for the rare coin market to take off again, potentially rising 500-1,500% in the next few years. Already,

I am as excited about the 6-36 month prospects for the rare coin market as I have ever been (and I have been a collector since 1964). Of the 15 coins that have traded hands in publicly reported transactions above \$1 million, five sold within the last month!

But—there is at least one other possible factor that could lead the rare coin market to rocket much higher.

## **Will IRAs Be Permitted To Hold Certified Rare Coins?**

Pension and profit-sharing plans can legally invest in rare coins. Some do, although the number is rather limited because larger retirement plans tend to have stock- and bond-oriented managers. Individual Retirement Accounts (IRAs), on the other hand, can only own bullion items and the American gold, silver and platinum Eagle coins.

The coin industry has been working for the past few years to have Congress enact legislation that would permit IRAs to own rare coins certified by reputable, well-established grading services. I am Treasurer and a member of the Board of Directors of the Industry Council for Tangible Assets (ICTA), the national trade association for the coin industry. ICTA's lobbyist is confident that the political environment in 2005 offers the best opportunity ever for passage of this law. President Bush has stated the reform of the retirement system is one of his major goals this year. The preferred strategy to get this legislation would be as one of the parts of the bill drafted to achieve Bush's goal.

If this bill passes, the trillions of dollars already in IRAs could be used to own rare coins. I suspect that only a small percentage of total assets would be. But even if only \$100-300 million of IRA assets were used to purchase certified rare coins, that demand would overwhelm supply. Prices would soar into the stratosphere.

There are a lot of great reasons to own rare coins for appreciation even if this law is not passed. But the best time to add to your rare coin holdings is before this law is enacted. In other words, right now.

## **The Best Rare Coins To Buy Now**

It is not possible to pick the one rare coin that will outperform all the others. Rather, it is better to seek a diversified assortment of coins.

While I expect most any rare coins will do well in the next few years, some will do better than others.

After analyzing the rare coin markets over the past four decades and applying it to the state of the today's market, I think there are several categories of rare coins that offer the best prospects for above-average appreciation over the next few years:

- High-Grade U.S. Gold Type Coins, \$1.00-\$10.00
- Better-Date U.S. Gold Coins
- Classic U.S. Gold Commemoratives
- Better-Date U.S. Morgan and Peace Dollars
- U.S. Type Coins, Mint State and Proof
- Classic U.S. Silver Commemoratives
- Special Opportunities

This month, I present my fresh analysis of the best values among Morgan Silver Dollars. In forthcoming issues, I will go into more detail about how to find the top bargains in other categories.

Although I am high on the prospects for profits in the next few years, rare coins are not suitable for everyone. Buy/sell spreads are wider than they are for bullion issues, they are not as liquid as bullion, and greater care is needed to ensure that you are receiving solid quality for the described grade. Rare coins offer greater potential reward, but also carry a greater risk of loss. If you are uncomfortable with the higher risks, that would be sufficient reason to avoid investing in rare coins.

## **U.S. Treasury Confirms It Lacks Authority To Call In Gold**

Over the past 20 years, a marketing scare tactic often used by less-than-scrupulous coin dealers has been to raise the fear of "U.S. gold confiscation."

This tactic was used to persuade customers away from low profit margin bullion coins into higher profit (for the dealer) rare gold coins.

I have explained in the past that President Roosevelt's gold surrender in 1933 called for full compensation to those who turned in their gold. It turned out not to be full compensation when the government then raised the price of gold from \$20.67 to \$35.00 per ounce. The value of the price hike was enough to

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cover about 1-1/2 years of federal government operations at the time.

Because it was largely illegal for American to own gold from 1933 to 1974, gold ownership in the U.S., on a per capita basis, is actually quite low today. In past analyses, I have estimated that US government would bring in about \$80 billion of gold—equal to about one month of federal operations—if it called in gold again! If the government was really desperate to seize assets I think a juicier target would be IRAs and retirement accounts that hold trillions of dollars of assets.

Still, we periodically hear from customers who state that one of their aims in buying a particular form of gold is protection against possible government confiscation.

A December 17, 2004 letter by U.S. Treasury Department Assistant General Counsel (Banking and Finance) Roberta K. McNerney addressed to the press secretary of Congressman John B. Larson (D-CT) hopefully can put this bugaboo to rest.

Rep. Larson's office had written the Treasury about concerns from constituents about the legal security of their gold, specifically because of the 1933 presidential decree to redeem gold.

The text of Ms McNerney's letter reads:

*"I am writing in response to your e-mail of November 29, 2004, which forwarded a question from a constituent of Congressman Larson's as to whether the Treasury Department could force the redemption of U.S. gold bullion coins at face value, or the surrender of foreign bullion coins."*

*"In Public Law 97-258 (Sept 13, 1982), Congress eliminated a statute (12 USC 248 n) which had allowed the secretary of the Treasury to require individuals and others to deliver to the Treasury gold coins, bullion, and certificates. As a result, this statutory authority no longer exists."*

*"I hope this information is helpful. Please let us know if you have further questions or need additional information."*

Now, I suppose that just because a law does not exist now doesn't mean that none could ever be enacted. There

## The Month

Gold Range	\$ 8.25	1.9%	
Net Change	-5.50		
Silver Range	.41	6.3%	
Net Change	+.23		
Gold/Silver Ratio	62.5		
Net change	-3.0		
Platinum Range	37.00	4.4%	
Net Change	+20.00		
Platinum/Gold Ratio	2.07		
<b>Date</b>	<b>Gold</b>	<b>Silver</b>	<b>Platinum</b>
Jan 05	426.50	6.51	850.00
Jan 06	421.00	6.45	844.00
Jan 07	418.75	6.43	839.00
Jan 10	419.00	6.43	845.00
Jan 11	422.00	6.62	861.00
Jan 12	426.00	6.72	858.00
Jan 13	424.50	6.73	859.00
Jan 14	422.50	6.58	857.00
Jan 17	closed		
Jan 18	423.00	6.64	858.00
Jan 19	423.00	6.61	870.00
Jan 20	422.50	6.54	863.00
Jan 21	426.75	6.80	868.00
Jan 24	427.00	6.84	868.00
Jan 25	427.00	6.67	861.00
Jan 26	427.00	6.80	866.00
Jan 27	426.25	6.81	868.00
Jan 28	426.00	6.79	869.00
Jan 31	422.00	6.74	870.00
Feb 01	420.75	6.73	876.00
Feb 02	421.00	6.74	870.00

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.

might also be some presidential order that could circumvent this lack of authority. However, the possibility of any redemption or confiscation is so remote that it should have no bearing on your decision about which form of gold to hold.

Incidentally, if a coin dealer mentions "gold confiscation" as part of a sales spiel, you may want to avoid that dealer.

## Gold and Gold Coins

Gold finished today at 421.00, down \$5.50 (1.3%) from last month.

Trading has been quiet over the last few weeks, a marked contrast to the volatility we saw over most of 2004. At these low prices, investor physical demand continues to out-

strip liquidation.

As a result, premiums for both the U.S. **American Eagles** (6.2%) and the Canada **Maple Leaf** (5.5%) are higher than a month ago. There is some shortage of prior year issues on the market, but 2005-dated coin are available with no problem. I do not expect these higher premiums to last long.

The best low premium buys are still the Austria **100 Corona** (3.5%), South Africa **Krugerrand** (3.7%), and U.S. **American Arts Medallions** (3.7%). Among smaller coins, the British **Sovereign** (7.7%), French **20 Franc Rooster** (8.8%), and Swiss **20 Francs** (8.8%) are money-savers..

Among **Common-Date U.S. Gold Coins**, Double Eagles continued to languish. The weakness in these prices helped me purchase some of the **Better-Date \$20.00 St Gaudens** offered in the enclosed flyer. Collectors love coins with 50-200 times the rarity at only a little higher price.

The smaller denominations of Common-Date U.S. Gold Coins have largely held their prices and some have increased from a month ago. The reason collectors love them is that they are so much rarer than the Double Eagles, but are quite reasonably priced when compared to the larger coins.

Nice deals of **World Gold Coins** are getting harder to find, but I was fortunate to find a modest group of the rare **France Gold 40 Francs** at a show three weeks ago. See our flyer for details.

## Silver and Silver Coins

Silver closed today at 6.74, up 23 cents (3.5%) drop from four weeks ago. Like gold, trading was relatively quiet, with buyers outnumbering sellers.

Higher prices have led to a slight drop in premiums. The best buy is still U.S. **90% Silver Coin** (3.5%).

I had unusually good fortune at purchasing some **Better-Date Morgan Dollar Bargains** at a coin show three weeks ago. I could not match that feat at another major show last weekend. As knowledgeable collectors realize how much coins in lower grades have appreciated, they will become more interested in this MS-64 to MS-66 issues that have lagged behind. See our enclosure.

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