Liberty's Outlook

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As Gold Hits 25-Year High, Silver A 22-Year High, And Platinum An All-Time High, We Need To Ask

Has Economic War Been Declared On The U.S. Dollar?

Fed Raises Interest Rate—And Precious Metals Stay Strong!

Do we need any more proof that the precious metals boom is underway?

Yesterday, for the 14th time in less than two years, the Federal Reserve raised short-term interest rates by another 0.25%. For each of the previous 13 rate increases, the prices of gold and silver had temporarily fallen, taking a few days to two weeks to resume their upward march.

After the Fed raised the rate yesterday, the price of gold in the U.S. markets rose to close at its highest level in 25 years. Silver climbed to a 22 year high. And platinum set another all-time high price.

There may yet be a slight burp in the price of precious metals in the next few days. However, precious metals have now smashed one of the last barriers holding back higher prices. What is there left to hold it back now?

Actually, there are many factors that are still holding down precious metals prices. Technical traders are looking at their charts and proclaiming that gold and silver are "overbought." They think that so much gold and silver has been purchased by "weak hands" investors that we are bound to see a severe retrenchment in prices in the near future.

The gold market has certainly been getting much more coverage in the mainstream investment press. Just in the past week there have been major bullish stories on CNN, MSNBC and from Bloomberg's. While these stories marvel at how gold is reaching long term highs, and mention that it is possible that the Chinese central bank may be buying gold reserves, the main reason they claim that gold is hot right now is worries over rising inflation.

While inflation is rising, and the ownership of precious metals has historically been a safe haven to protect against the ravages of inflation, that is not the primary reason for the booming demand for gold and silver today.

The gold and silver markets are both enduring long-term fundamental shortages of supply to meet demand. For this reason and for protection against inflation, I would expect gold and silver prices to be moving gradually upward.

But when precious metals rise by more than 10% in one month (see table at right), and the value of the dollar is slipping against almost every other currency (enough so that that the Dow Jones Industrial Average and the S&P 500 index are both declining if measured in the Euro, British Pound, or Swiss Franc), it is highly likely that there are factors pushing for more than a gradual rise in precious metals' prices.

What is really happening is that a large number of central banks and foreign investors are already reducing their holdings of U.S. dollars. They are buying a lot of gold as a safer alternative.

The list of central banks that have either been confirmed or at least are rumored to be buying gold reserves is getting longer all the time: China, South Korea, Taiwan, South Africa, Russia, India, Argentina, and Iran. Soaring oil profits in the Middle East are contributing to a gold buying boom in that part of the world from the government and private sectors. Increasing affluence in China is adding to private demand there. Investor demand in Japan has also grown.

Nations like Iran have all but announced that they are waging economic war on the U.S. Iran, in particular, is preparing to open a petroleum commodities exchange next month where traders will not be allowed to use U.S. dollars!

Iran is doing more saber rattling. As

Results For January 2006

Precious Metals	
Palladium	+13.4%
Silver	+11.7%
Gold	+10.3%
Platinum	+10.3%
US Dollar vs Foreign Currencies	
China Yuan	-0.1%
Japan Yen	-0.5%
Mexico Peso	-1.8%
Canada Dollar	-2.0%
India Rupee	-2.5%
Euro	-2.6%
Switzerland Franc	-2.7%
Great Britain Pound	-3.3%
Australia Dollar	-3.3%
US And World Stock Indices	
Russell 2000	+8.9%
Frankfurt Xetra DAX	+4.9%
NASDAQ	+4.6%
Tokyo Nikkei	+3.3%
S&P 500	+2.5%
London FT 100	+2.5%
Dow Jones Industrials	+1.4%

Inside this issue:

(Continued from page 1)
reported over a year ago, Iran tested a new missile that could be used to launch an electro-magnetic pulse (EMP) attack against the United States (see the July 6, 2005 issue of *Liberty's Outlook* for more discussion on this subject). Last year, it announced that it had developed a solid rocket fuel, which can be carried safely on a small ship at sea. Such a ship could easily carry a single missile undetected close to American shores.

Now, the Iranian government is in the process of resuming its nuclear research program, risking international sanctions to do so. The Iranian government is also repatriating its international bank accounts to preclude the possibility of having these funds frozen and held hostage.

The United States has the strongest economy, by far, of any nation. The economic clout of Iran is almost unimportant in comparison. The U.S. government probably still holds the largest gold reserves of any nation. So why would a government like that in Iran even consider taking on the U.S?

Because it has a lot of help, intended or not—that's why.

The U.S. government is hamstrung with over a trillion dollars in annual payments for Social Security, Medicare, and Medicaid, plus another half trillion in military spending. It is running record budget deficits under a president who has not vetoed any spending bill passed by Congress.

The U.S. Treasury is trying to hide the level of inflation it is causing. Next month, for instance, it will cease reporting the M3 definition of the money supply, a report which would disclose increases in the money supply caused when foreigners send U.S. dollars back to the U.S.

The American economy's trade deficit is growing both in absolute size and as a percentage of Gross Domestic Product. As a result, foreigners have been absorbing extraordinary quantities of U.S. currency and Treasury debt. All of these problems put the U.S. in a more precarious position of having to seek international support and cooperation to avoid an implosion of the U.S. monetary system.

There are other significant strains on the U.S. economy. The private sector savings rate is at an all-time low. Today, Americans are looking to asset appreciation to bail them out rather than relying on savings accounts, bonds, and certificates of deposit.

The real estate market is looking scary right now. I read one report last night that the median price of a home for sale in the Miami market has fallen from $425,000 to $399,000 in just the past five months and that there are now 85% more homes for sale in that market than there was last August!

A higher percentage of homes have been bought for speculation and investment than ever before, with the amount of the average down payment declining. It would not take much of a market decline for a flood to foreclosures to hit the market.

Politically, the U.S. government is often perceived abroad as something of a bully, as evidenced by one recent example. The United Nations passed a resolution late last year calling for the United States to end its boycott of Cuban sugar. This resolution was only opposed by the United States and three other countries: Israel, Palau, and the Marshall Islands—all who are heavily subsidized by U.S. taxpayers.

The U.S. government and American consumers aren't the only ones putting the value of the U.S. dollar at risk. The foreign governments that have been amassing hundreds of billions of U.S. dollars and Treasury debt, nations like China, Japan, Taiwan, South Korea, Hong Kong, Singapore, and others want to diversify their holdings for self-protection. Even if these governments have no ill intentions toward the U.S. dollar, the combined effect of their decisions to reduce dollar holdings has the effect of knocking down the value of the U.S. dollar.

In effect, Iran's leaders can look at all the factors already putting the U.S. dollar in a precarious position, and think that they could add a bit more pressure to do real damage to the United States of America.

One saving grace for the U.S. is there are no safe alternative currencies to replace the dollar. Other foreign currencies are not backed by anything more than government promises. In theory, the outstanding Euro currency is backed by 15% gold reserves, but the notes are not redeemable for gold. Other currencies may not have as far to drop as the U.S. dollar, but they would not be able to hold their value in any global financial crisis.

That leaves tangible assets with gold and silver being the two most important. When the Far East Asia currency crisis hit in 1997, citizens of many nations were financially devastated. Those citizens who held a decent amount of gold, however, were able to ride out the troubles with no decline in living standard—and some became even more affluent.

The burning question is "Has economic war been declared on the U.S. dollar?"

The answer is no—and yes. I do not think there is a worldwide concerted effort to destroy the value of the U.S. dollar. I discount the blatant actions of Iran and its allies as not sufficient to be considered a credible attack. However, when you add the effects of how the U.S. government is hurting the value of its own currency, and the actions of other governments and foreign investors taken in self-defense, the end result is a major assault against the value of the U.S. dollar.

Until the so-called investment experts realize and report that this is the real reason why investor demand for gold and silver is soaring, we will still be in the early stages of the boom market. It doesn't matter that gold, silver, and platinum have more than doubled in price in little more than four years. That is nothing compared to what we might see in the near future.

For years, I recommended that the conservative investor put 5-10% of their net worth in precious metals and rare coins as protection against calamities that might hit their paper assets. Even for the most aggressive investors, I put a limit at one-third of your net worth into hard assets.

Now, I am changing that recommendation. For conservative investors, I think you should now hold 10-20% of your net worth in gold, silver, and maybe rare coins. For moderate investors, shoot for 20% to one-third of your net worth. The truly aggressive might go as high as 40% of net worth!

Evaporating Gold Supplies

In the past two months there have been new revelations about central banks complying with International Monetary Fund (IMF) requirements by reporting gold as being in their vaults even if it is out on lease. After the Russian central bank announced plans to double its gold reserves, it revealed that only 123 of 500 tons of gold that they had reported as being in their vaults was actually there. The remaining 377 tons were out on lease.

Just how much of the 900+ million ounces of official gold holdings (central banks, the IMF, the Bank for Interna-

(Continued from page 2)
tional Settlements, and the like) is really in the vaults? No one actually knows.

"Mainstream" gold analyst Jessica Cross prepared a report for the World Gold Council where she calculated that at least 15% of official reserves were out on lease and perhaps as much as 25% was out on loan.

Savvy analysts who don't toe the "official" line, like Frank Veneroso, think that at least 50% and perhaps as much as 75% of all official gold holdings have been leased and now exist in the form of jewelry.

These outside analysts contend that as much as 45-50 million ounces of gold each year have been surreptitiously leaked into the gold market by central banks trying to hold down the price of gold, or, conversely, to prop up the value of their currencies.

With disclosures like that made by the Russian Central bank, it is looking like extremists just might be a lot closer to the truth than the mainstream analysts. To the extent that any more of this analysis is confirmed by other central bank disclosures, that will simply magnify the gold shortages, propelling gold prices higher still.

Last Friday, London-based HSBC analyst Alan Williamson dropped a bombshell. He is a "mainstream" gold analyst who now doesn't think that the central banks will sell as much gold as permitted under the current Central Bank Gold Agreement. Under this agreement, central banks were to sell 80.4 million ounces of gold over five years to help hold down gold prices.

Williamson calculated that only 46.3 million ounces of gold will be sold by the central banks under this agreement and that, in the most extreme circumstances, a maximum of 74 million ounces of gold would be forthcoming.

When even mainstream analysts like Williamson acknowledge such shortages of gold supplies, the day is getting closer for the real boom in gold prices.

By the way, Williamson is one of the analysts whose precious metals forecasts are reported by the London Bullion Market Association each year. His 2005 predictions for gold, silver, platinum, and palladium were way too low.

For 2006, his predictions are:

Gold: Range $460-590, average $520

Silver: $7.00-10.00, average $8.50

Platinum: $875-1,050, average $945

Palladium: $175-300, average $225

As you can see, platinum has already exceeded his top price and the other three metals are all close to beating his top projection.

Gold and Gold Coins

Gold closed today at $569.50, up a huge $35.50 (6.6%) in the last month! Since the Russian central bank announced plans in mid-November to double its gold reserves, the price of gold has jumped a total of $101.50 (21.7%)!

Altogether, gold is up 122.8% since it closed at $255.50 on February 15, 2001.

This extraordinary appreciation of gold has many asking us if it is too late to acquire gold or if they should wait for a major sell-off of this "technically oversold" market. Others are asking if now is the time to take their profits.

The market will never move in a straight line. It is normal to see periodic declines even in an overall rising market.

If you believe that the technical chart followers are correct, then now could be a good time to take at least some profits. You may also have cash flow or tax reasons for selling now.

For most people, however, I would recommend expanding your gold, silver, and rare coin holdings. If you hold no gold right now, you should at least buy a little bit. You may not be buying gold for under $300/ounce, but you will still be pleased if it reaches $800, $1,000 or higher in the future.

Recently, there has been a significant increase in gold liquidation. There has also been a rise in demand from both existing and brand new buyers of gold.

As always, I think the best values in physical gold are the issues where you get the most gold for your money. The amount of recent liquidations has helped knock down premiums on many of the most popular majors—the coins with exact or close to an ounce of gold content. The best low-premium buys are still the Austria **100 Corona** (2.6%) and U.S. **American Arts Medallion** (2.7%). The premium on the South Africa **Krugerrand** (3.0%) has returned to more attractive levels. Even the Mexico **50 Peso** (3.5%) and Canada **Maple Leaf** (3.7%) are worth considering.

Coins like the U.S. **American Eagle** (5.0%) and Australia **Kangaroo** (5.1%) are also down in premium, but I think they are still overpriced. Don't be surprised if their premiums continue to drop.

Premiums on smaller gold coins like the British **Sovereign** (7.4%), French **20 Francs Rooster** (8.6%), and Swiss **20 Francs** (8.6%) are also down but not as much as the larger coins.

The multi-month boom in **Common-Date U.S. Gold Coins** has slowed. In the case of $20.00 Liberties and St Gaudens some prices have even fallen, despite higher gold spot prices. The price of gold, as measured in Euros, is so high that European banks are disgorging significant quantities of Double Eagles. Until the Europeans finish this round of liquidation, which could take a few months, I expect premiums for the $20.00 Liberties and St Gaudens to fall even further.

Better-Date U.S. Gold Coins draw immediate strong interest from collectors whenever they can be found.

Interesting lots of **World Gold Coins** continue to be few and far between. We hit the jackpot a couple of weeks ago when we scooped up an unusually large hoard of **Mint State Austria 25 Schillings**. These coins were issued in relatively modest quantities in the latter 1920s and in the 1930s. Our current supply is many times larger than all of the pieces we have had over the past 35 years. Because of our fortunate purchase, we can offer them at a semi-bullion price. See our offer for details.

Silver and Silver Coins

Silver closed today at $9.76, rising 66 cents (7.3%) from four weeks ago.

Exactly three months ago today, silver closed at $7.46. It is up 30.8% since then. In fact, since silver closed at $4.04 on November 26, 2001 it has increased 141.6%!

Much has been made about the expanding industrial applications for silver. However, any major economic problems would almost certainly cut into that demand. What would happen, in the event of a major financial crisis, is that silver once again take on a major financial role, much as it did before the mid-1960s. So, no matter which way the world economy goes, silver will continue to be in strong demand.

Higher silver prices are starting to bring more silver onto the market. However, we are still experiencing demand from our customers far in excess of what

(Continued on page 4)

(Continued from page 3)
is being sold to us.

U.S. **90% Silver Coin** (1.5%) continues to be the best value in physical silver. Not only does it have the lowest premium, it is also the most widely traded form, the most divisible, and has the best liquidity. Because of our continuing need for more of this product, we have decided to tighten our retail buy/sell spreads.

For customers who have purchased bags of 90% Coin from LCS, we will now pay 92% of our current selling price. For multi-bag lots, we will sell 93% of our current selling price. From past experience, we know that the 90% Coin bags shipped by LCS tend to be much more accurate in count and much cleaner (no non-silver coins or lower purity foreign coins) compared to almost all competitors. When we repurchase 90% Coin that we originally sold, our labor costs to check through every coin and verify the counts are lower, so we will pay our customers more for such silver than we would pay for 90% Coin bought elsewhere.

Premiums on **100, 10, and 1 Oz Silver Ingots** (3.6-4.6%) have also declined. With a price advantage of 20-30 cents per ounce, however, I would rather own 90% Coin.

When the silver price quickly rose over $7.00 in early 1998, following the revelation that Warren Buffet's Berkshire Hathaway had purchased 129.7 million ounces of silver, so much silver was being liquidated that the Handy & Harman refineries simply stopped accepting U.S. **40% Silver Coin** (3.2%). They could not afford to tie up refining capacity with such low purity product. Other refineries continued buying 40% Coin, so not all was lost. Still, I would not recommend 40% Coin right now because of the risk that this will happen again and also the extra bulk that chews up postage costs and storage space. When silver was $4.00 per ounce and 40% Coin sold for little more than face value, it was a sensible low-risk purchase. That doesn't apply at today's silver prices.

If you are looking to purchase physical silver, I urge you to stay away from higher premium products such as U.S. **Silver Eagle Dollars** (20.0%), Canada **Silver Maple Leafs** (20.5%), and old U.S. **Circulated Peace Silver Dollars** (31.4%). Here's why—a year ago the silver spot price was $6.73 and circulated Peace Dollars were selling at $8,750 per bag, a 70.8% premium above melt value. In the year since, the spot price of silver has shot up 45%, but the price of the Peace Dollars only rose 11.4%. There can be a place for owning Silver Eagles or old Circulated Common-Date Silver Dollars as rare coins, but don't buy them as a way to buy silver bullion.

Common and Better Date Mint State Morgan and Peace Silver Dollars are almost certain to rise after the new Presidential Dollar coins are released a year from now. Some years are especially hard to find. Our offering of **1895-O Morgan Dollars** at special discount prices will put our competitors to shame.

We recently purchased a nice East Coast collection that had a nice variety of **Better-Date Mint State Roosevelt Dime and Franklin Half Dollars Rolls.** See our flyer for details.

The Month

Gold Range	$44.25	8.3%
Net Change	+35.50	
Silver Range	1.05	11.5%
Net Change	+.66	
Gold/Silver Ratio	58.4	
Net change	-0.3	
Platinum Range	90.00	9.1%
Net Change	+72.00	
Platinum/Gold Ratio	1.87	

Date	Gold	Silver	Platinum
Jan 04	534.00	9.10	993.00
Jan 05	526.50	8.80	982.00
Jan 06	539.50	9.11	994.00
Jan 09	549.00	9.22	1,008.00
Jan 10	544.25	8.95	1,008.00
Jan 11	548.75	9.00	1,015.00
Jan 12	548.25	9.00	1,018.00
Jan 13	556.00	9.11	1,031.00
Jan 16	561.00	9.23	1,039.00
Jan 17	553.25	9.01	1,036.00
Jan 18	543.75	8.82	1,019.00
Jan 19	558.25	9.06	1,036.00
Jan 20	553.50	8.88	1,023.00
Jan 23	558.25	9.02	1,041.00
Jan 24	557.50	9.18	1,046.00
Jan 25	562.00	9.46	1,051.00
Jan 26	559.50	9.55	1,052.00
Jan 27	558.50	9.56	1,062.00
Jan 30	565.50	9.74	1,069.00
Jan 31	570.75	9.85	1,072.00
Feb 01	569.50	9.76	1,065.00

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.

Are Your Safe Deposit Box Contents Safe And Private?

I recently had an email forwarded to me by a friend who is usually right on top of breaking news. The contents of this email is disturbing, if true. I have not had time to ask any local bankers about it to verify or disprove the accuracy of the information. If any reader learns any details from their bank, I would appreciate it if they could share them with me.

This information is contained in an essay available at the following address: http://bellaciao.org/en/article.php3?id_article=9995

The essay is dated January 21, 2006. It claims that managers at the Bank of America and Compass Bank (a large regional bank in the Southwest) have been instructing employees how to respond in the event of a collapse of the U.S. economy. Specifically, they are being told that 1) only agents of the Department of Homeland Security have the authority to decide what safe deposit box contents that owners may retrieve, 2) U.S. citizens will not be able to remove precious metals or other valuables from safe deposit boxes at all, and 3) bank employees are prohibited from revealing this information.

Whether this is accurate information that some or all banks are preparing to restrict access to safe deposit box contents in event of a financial crisis now, it certainly could happen in the future. Safe deposit boxes are generally safer than storing your precious metals at home. But having your hard assets in your direct possession in a time of crisis is a whole lot better than having them in a far away depository or in a local safe deposit box that you cannot touch.

If I learn more details before next month, I will pass them along. In the meantime, if you now have all your gold and silver in a safe deposit box, you may want to take at least part of it out now while you can.

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