

# Liberty's Outlook

Volume 17 Issue 2 Liberty Coin Service's Monthly Review of Precious Metals and Numismatics February 9, 2011

## Silver Price Ready To Soar!

**Mysterious Withdrawal Of Gold From GLD Exchange Traded Fund  
Record Level Of Backwardation In Silver Commodity Markets  
10-Year Treasury Debt Interest Rate Up 12% So Far This Year  
JPMorgan Chase Will Accept Physical Gold For Loan Collateral, But . . .**

There are too many news developments in the past month to try to squeeze into a 10-page newsletter, let alone the meager four pages of this publication. That doesn't even count all the juicy rumors floating around which I won't discuss because there just is no way to double-check their truthfulness.

The bare facts are that gold and silver prices declined from their January 3 peaks, touching bottom in the week of January 24-28. This was a longer decline than has been experienced in over a year, and was a percentage drop typically seen only one or two times a year.

Still, the fall in prices was not a total surprise. Gold hit an all-time high price on January 3 (ignoring inflation, of course), the same day that silver reached a nearly 31-year high. The price increases were accelerating. "Something" had to be done to defend the value of the US dollar, and fast.

Several "somethings" were done.

- The January 6 edition of the weekly "Federal Reserve H.4.1 Factors Affecting Reserve Balances of Depository Institutions and Condition Statement of Federal Reserve Banks" began with an announcement of an accounting change that took effect January 1. Now amounts owed by the Federal Reserve to the US Treasury will be recorded as liabilities rather than reductions of Federal Reserve Capital. Potentially, daily losses sustained by the Fed could end up being booked as assets! With this new accounting standard, it will no longer be possible for the Fed to ever report that it is insolvent!
- In mid-January, CME Group, which owns the COMEX and NYMEX exchanges, raised various margin requirements, even though gold and silver prices were falling at the time. It would be highly unusual for margin requirements to be raised when prices

### 2011 Year To Date Results

Through February 8, 2011

#### Precious Metals

Platinum	+4.7%
Palladium	+4.4%
Silver	-2.1%
Gold	-4.1%

#### Numismatics

US MS-65 Morgan Dollar, Pre-1921	0.0%
US MS-63 \$20 Liberty	-5.2%
US MS-63 \$20 St Gaudens	-6.0%

#### US Dollar vs Foreign Currencies

South Africa Rand	+8.6%
Switzerland Franc	+3.1%
India Rupee	+1.2%
Australia Dollar	+0.7%
New Zealand Dollar	+0.5%
Brazil Real	+0.3%
Hong Kong Dollar	+0.1%
Canada Dollar	-0.3%
China Yuan	-0.6%
Singapore Dollar	-0.8%
Japan Yen	-1.6%
South Korea Won	-1.8%
Euro	-1.9%

Mexico Peso	-2.4%
Great Britain Pound	-3.0%
U.S. Dollar Index	77.97 -1.34%

#### US And World Stock Market Indices

Frankfurt Xetra DAX	+5.9%
Dow Jones Industrial Avg	+5.7%
NASDAQ	+5.4%
S&P 500	+5.3%
Nikkei 225	+4.0%
Russell 2000	+3.8%
Dow Jones World (excluding US)	+3.3%
London FT 100	+3.2%
Australia S&P/ASX 200	+3.1%
Shanghai Composite	-0.3%
Sao Paulo Bovespa	-5.1%

10 Year US Treasury Note interest rate	3.721% +12.8%
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#### Intrinsic Metal Value Of U.S. Coins

Lincoln cent 1959-1982	2.97¢
Lincoln cent 1982-date	0.66¢
Jefferson nickel non-silver	7.21¢
Roosevelt dime, 1965-date	3.27¢
Washington quarter, 1965-date	8.17¢
Kennedy half dollar, 1971-date	16.34¢

are declining—unless the reason was to try to further suppress gold and silver prices.

- In mid-January, the London Bullion Market Association reported that its silver contracts were in backwardation as far out as 12 months. In backwardation, where spot month contract prices are higher than future month prices, there is a supply squeeze of the physical commodity. The previous time that the London silver market went this far into the future with prices in backwardation was in January 2009. Then, silver prices rose 40% within the next few weeks.
- To top that off, at the end of last week, the COMEX silver market was in backwardation almost every month out to December 2015! No one I checked with ever recalled

seeing the COMEX silver market in backwardation to that extent.

- From December 21, 2010 through the end of January 2011, the GLD gold exchange traded fund (ETF) disposed of 2.2 million ounces of its physical gold holdings. On January 25 alone, about 1 million ounces were withdrawn, which represented about 2.5% of the fund's entire gold position! The only two reasons for the fund to reduce its gold holdings would be to raise funds to cover operating expenses or to meet a redemption demand from an Authorized Participant to cash in a minimum of 100,000 shares (representing approximately 10,000 ounces). My suspicion is that this physical gold was acquired by trading partners of the US government so

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that it could be dumped onto the markets to try to help suppress gold prices. Almost every time that GLD holdings have declined 1% or more, it has marked a market bottom, followed sometimes by sharp price increases.

- The Federal Reserve helped in other ways to try to prop up the value of the US dollar. One way was to aggressively purchase US Treasury debt to keep the effective interest rate on 10-year securities below 3.5%. That tactic worked up until a week ago. Today, for instance, 10-year notes sold at a yield of 3.665%, meaning the interest rate is up about 12% from the beginning of the year. In the past ten Treasury debt auctions, the average bought by “indirect participants” was 46.35%. Today, the indirect participants claimed 71.3% of all debt sold. In the past, the indirect participants were thought to include only foreign investors. However, starting a year or so ago, analysts started to suspect that the Fed was the real buyer behind some of these indirect bids to try to make it appear that there was genuine demand for US Treasury debt.
- Almost every day since the start of the year, the Dow Jones Industrial Average has closed higher than the day before, no matter how poor the daily financial and political news.

These are not all the shenanigans going on behind the scenes, but it gives you a pretty good idea that the US government went all out to try to prop up the dollar by making gold and silver look unattractive and risky.

All this political maneuvering depleted the resources of the US government and its trading partners. A week ago it looked evident that the manipulation tactics were slowing down. That typically indicates a retreat to higher prices before again making a major effort to suppress prices.

## Why Gold And Silver Should Do Well By The End Of March

There are so many reasons why gold and silver, especially silver, are set to continue rising in price, that I don't have room to list all of them. Here are some of the more notable ones:

- JPMorgan Chase just announced that it is willing to accept physical gold as collateral for loans made by the bank. In effect, the bank is ac-

cepting gold as representing liquid money!

However, there is an interesting side note to this development. JPMorgan Chase is a major custodian for gold exchange traded funds. Therefore, it should know whether the ETFs really possess all the gold it supposedly owns to cover 100% of its outstanding shares. Well, JPMorgan Chase specifically will not accept gold ETF shares as collateral against loans made by the bank. Does someone at the bank know something they are not telling the public?

- The judge in the Freedom of Information Act lawsuit by the Gold Anti-Trust Action Committee, Inc. (GATA) seeking information about gold swaps by the Federal Reserve has issued an order to the Fed to turn over one document by February 18 that the Fed had attempted to exempt from disclosure. The judge had reviewed ten documents to evaluate whether there were valid grounds to exempt them from disclosure. Though the judge did exempt nine documents from disclosure, the nature of the subject of the documents did go on the record. Some of them involved the US government discussing gold swap arrangements with other central banks. This information proved that the Federal Reserve had lied when it constantly claimed that no such gold swap discussions ever occurred.
- It is possible that Rep. Ron Paul (R-TX) may use his subcommittee chairmanship to pressure the Fed to disclose more information about its gold holdings and trading practices, which efforts were blocked by Congressional leadership in the previous Congress.
- The COMEX is continuing to lose physical silver inventories. Total inventories are now down more than 10% since mid-June 2010. Registered (dealer) inventories now only cover about 6.6% of open contracts, well below the normal 10-15% coverage.
- The growing backwardation in both the London and COMEX silver markets indicate a huge supply squeeze is developing.
- Demand for US Silver Eagle Dollars was so strong in January that the US Mint had to begin rationing the coins part way through the month. Still, total sales of 6.4 million coins in January far exceeded the previous monthly sales record. Who knows how many the Mint could have sold if it had not rationed them for multiple weeks.
- The retail premium on US 90% Silver Coin has risen enough that dealers who sell them wholesale can get a better price from other dealers than they can from the refiners. Consequently, refineries are experiencing a shortage of silver to process. There are reports in the past week of refiners turning away new orders for silver as they cannot obtain enough silver to fill the orders.
- With the refiners suffering a shortage of physical silver to process, delays are starting to develop in deliveries of various sizes of ingots.

When a financial planner in Georgia tried to find \$1 million of physical silver to purchase for his personal account this week, he had to place partial orders with a number of vendors as he could not find any with sufficient inventory to handle the trade. While such a trade may be huge for you or me, it is insignificant in global financial circles.

(Actually, he should have called LCS, as we do work with wholesalers to handle silver transactions of that size.)

- The ouster of Tunisia's leader has incited protests in other Arab nations. Egypt's president has promised to step down later this year, and he may end up leaving office before the elections.
- Federal Reserve chair Bernanke's testimony before Congress today backfired. Normally, the US government's trading partners work overtime to support the value of the US dollar, support stock prices, and suppress gold and silver prices when a top official makes an important presentation. Today, the US dollar fell against all major currencies after Bernanke tried to claim that inflation was still too low, and that the US economic recovery still needed low interest rates.
- For virtually every month of the past six years, the prices of gold and silver have been knocked down in the 48 hours before the monthly release of the US jobs and unemployment report. Last week, both prices started rising about 12 hours before the release of the report, and kept rising after the release. Simply because of the increase in the population, the US needs to add at least 100,000 jobs every month just to maintain the same unemployment rate. Last week's report of only 36,000 new jobs actually indicated higher unemployment. The Bureau of Labor Statistics fudged to get a lower unemployment rate by reclassifying a half million unemployed people as no longer being unemployed—even though they have not found a job. The report was so poor that even the mainstream media began taking the government to task for their manipulation of the data.
- As for Bernanke's claim that consumer prices are not rising in the US, here are some wholesale food price changes as reported by *The Wall Street Journal* from the start of 2011 through yesterday: hogs up 16.5%, beef 3.0%, wheat 13.8%, corn 8.9%, soybeans 4.6%, butter 27.1%, cheddar cheese 36.8%, corn oil 7.4%, flour 12.4%, lard 30.0%, and oats 7.4%. There were some price drops such as sugar and eggs, but the overwhelming trend was for noticeably

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higher prices.

- Even the US dollar is falling, despite these massive efforts to support its value.

## A Bold Forecast For Gold And Silver

There are some things stirring which I cannot double-check but seem eminently sensible to me. They come from sources that have been highly reliable in the past.

The US dollar is at high risk of a major decline in the next seven weeks. The rising interest rate on Treasury debt is the alarm that other nations will be more aggressive at trying to get away from the dollar.

So, I'm going to stick my neck out and predict major moves in both gold and silver prices to hit before the end of March.

**First, look for gold to reach \$1,600.**

**Second, I see silver reaching somewhere in \$38.00 to \$45.00 range, with a possibility of going higher.**

## Are Rare Coins Worth Owning Now?

Last month I mentioned that Peter Schiff, the CEO and Chief Global Strategist for Euro Pacific Capital wrote a column warning against ownership of rare coins and paper money. In my judgment, his warning is about 90% correct, but I didn't have space to go into full details where we agree and disagree. Let me do that now.

A sales tactic that has been used for decades by national marketing companies is to provide good information on the value of owning bullion-priced physical gold and silver, but then tout owning rare coins as the means to accomplish this end. Schiff and I agree strongly that this is a bait and switch tactic meant to make profits for the marketing company which often results in poor or horrible results for their customers.

Competitively-priced companies cannot make enough profit margin from selling bullion-priced products to pay for any substantial marketing program. In order to pay for all that advertising (and also the sometimes high employee sales commissions) these companies must sell rare coins which have a larger spread between their buy and sell prices than bullion-priced items. Even worse, we have repeatedly seen bullion-priced issues marked up to sell as rare coins, rare coins sold at prices far higher than most dealers charge, and various other deceptive practices. In the

ugliest circumstances, we have been told by some customers of these companies that they thought they were purchasing bullion-priced items but were really overpaying for collector coins that were completely unsuitable for the purposes for which they made their purchases.

Far too many times we have been contacted by customers who have already made inappropriate purchases from such companies. They find out too late that they could have purchased the same merchandise from us at a much lower price. It is common that the price we offer to purchase their items is also higher than they are offered by the company who originally sold them the items. Even more, they learn that they could have made alternate purchases better suited to their goals.

Some of the marketing materials are very persuasive. Customers have told me that the sales representatives are so skilled and persistent that it almost impossible to tell them "No." Still, the buyers should have the common sense to at least do some double checking of claims and prices before making significant purchases.

Schiff also correctly points out that in the current market, where unemployment is high and people are struggling to pay down debt, that discretionary purchases tend to decline. That is mostly true. There has been some reduction in collector demand in a number of numismatic niches, where some prices have actually declined. It does not make sense to try to collect everything. Instead, savvy collectors watch different coin markets to ascertain peaks and valleys for trading parts of their collections.

At any time, there are numismatic niches that will be rising.

In the current market with rising gold and silver prices, there will be times when popular "Blue Chip" (or generic) coins may outperform even the bullion prices. That is because these national marketing companies pretty much can only offer to sell rare coins that are available in large enough quantities to make the promotions profitable enough to cover marketing costs. It is quite possible that US Morgan and Peace Dollars over the next year will be among the star performers. Many Classic US Gold Coins that are less widely available than common-date \$20.00 Liberties and St Gaudens also have past track records of outstanding performance.

Rare coins have the potential to outperform gold and silver prices at times. However, along with this higher potential return is a greater risk of a smaller gain than on bullion and even an outright loss. Rare coins have wider buy/sell spreads, are less liquid, and have a greater risk that you might purchase something where the quality is not as good as described. In addition, purchasers need to be comfortable with a longer

## Summary Of Current LCS Recommendations For Precious Metals and Rare Coins

*How much of your total net worth should be in precious metals and rare coins?*

	<u>Conservative</u>	<u>Moderate</u>	<u>Aggressive</u>
	10%	20%	25-33%

*How much to allocate for each category of precious metals and rare coins?\**

	<u>Conservative</u>	<u>Moderate</u>	<u>Aggressive</u>
Gold	40%	35%	25%
Silver	60%	55%	50%
Rare Coins	0%	10%	25%
TOTAL	100%	100%	100%

\*Platinum and palladium both have volatile markets with long-term supply/demand fundamentals that are not as attractive as those for gold, silver or rare coins. While either or both might outperform gold, silver, or rare coins in the short- to long-term, to be conservative we have omitted them from our allocation.

holding period, often at least three to five years, before they might see good results.

Because of these additional risks, I do not consider rare coins as an appropriate "investment" for a high percentage of the general public. Even for those who are more aggressive and willing to take on greater risk, I still think that rare coins should only cover a modest fraction of what is devoted to owning hard assets such as gold and silver.

The staff at Liberty Coin Service has centuries of combined experience as collectors who have seen numismatic market peaks and valleys. Because of this, we seek out rare coins and paper money that look to have the best appreciation prospects—because we want a happy customer to resell the items to us down the road. However, we are not perfect and markets sometimes take strange detours. As a result, even the assistance of competent numismatists is no guarantee of exceptional results.

So, as to Schiff's contention that ownership of rare coins is to be avoided entirely in this market, I can only mostly agree. I agree that most of the public should not be purchasing rare coins now. But, for those willing to take serious interest in their collection, there are opportunities in weak markets to make some wonderful acquisitions that could have profitable outcomes.

## Silver and Silver Coins

Silver closed today at \$30.27, up a strong \$0.74 (2.5%) from last month, given the depths to which the price de-

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clined in the latter part of January.

Delivery times for several bullion-priced products are starting to stretch out. I would not be at all surprised to see availability stretch out further into the future within the next few weeks.

Although a couple premiums have increased in the past month, such as **1 Ounce Silver Ingots** (5.0%) and **Very Good or better Morgan and Peace Silver Dollars** (15.2%) most choices are still at reasonable premiums. That includes the **US Silver Eagle Dollars** (9.6%) even though the US Mint is strictly rationing new supplies.

The form of bullion-priced silver I most recommend is **US 90% Silver Coin** (1.9%). It has nearly the lowest premium, meaning you get more silver for your money than if you were buying ingots or Silver Eagles. It is the most widely traded form of physical silver, is the most liquid, and has great divisibility in that a silver dime contains about 1/14 of an ounce of silver. Should the US dollar ever fail, I expect that 90% Coin will become the dominant form of everyday spending money that would fill the breach.

The US Mint's **America The Beautiful 2010 5 Ounce Silver Quarters** are finally getting out. Two months ago I warned that there was a good prospect that they would trade at levels far above what made sense to pay for coins that theoretically are being marketed as bullion issues.

There are five different issues for 2010, which means that a full set contains 25 troy ounces of silver. I have seen sellers asking as much as almost \$5,000 for a set of these coins, which works out to nearly \$200 per ounce! A month ago, you would have had to pay \$2,500-2,750 to get your hands on a set. Today, I see most of them are selling retail in the \$1,625-1,700 range.

The current price is still too high. I expect them to continue to drop, especially after the 2010 proof versions are released. LCS has acquired a few sets that we will make available at competitive prices. I don't recommend paying anywhere close to current levels for them, but if you just need to get a set, give us a call.

We do have two offers this month of coins that look to have much better appreciation prospects than the America The Beautiful 5 Ounce Silver Quarters. First, we have the largest group of **Choice Mint State-63 1887**

## The Month

Gold Range	69.00	5.0%
Net Change	-18.50	
Silver Range	3.46	11.7%
Net Change	+0.74	
Gold/Silver Ratio	45.1	
Net change	-1.8	
Platinum Range	75.00	4.2%
Net Change	+58.00	

Platinum/Gold Ratio 1.36

Date	Gold	Silver	Platinum
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Jan 12	1,383.25	29.53	1,801.00
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Jan 13	1,387.00	29.25	1,821.00
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Jan 14	1,360.50	28.31	1,816.00
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Jan 17	closed		
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Jan 18	1,368.00	28.90	1,828.00
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Jan 19	1,370.25	28.79	1,838.00
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Jan 20	1,346.50	27.46	1,819.00
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Jan 21	1,341.00	27.41	1,822.00
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Jan 24	1,344.50	27.32	1,820.00
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Jan 25	1,333.25	26.81	1,787.00
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Jan 26	1,333.00	27.13	1,797.00
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Jan 27	1,318.50	27.05	1,803.00
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Jan 28	1,340.75	27.94	1,805.00
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Jan 31	1,333.75	28.17	1,801.00
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Feb 01	1,339.50	28.52	1,833.00
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Feb 02	1,331.50	28.33	1,829.00
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Feb 03	1,352.25	28.73	1,842.00
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Feb 04	1,348.75	29.06	1,846.00
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Feb 07	1,347.50	29.35	1,844.00
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Feb 08	1,363.50	30.27	1,862.00
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Feb 09	1,364.75	30.27	1,859.00
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London Silver Market Premium To New York Silver Market = 7¢

Gold, silver and platinum quotes are working spots at 1:45 EST/EDT each day, quoted in U.S. dollars per troy ounce.

**-O Morgan Silver Dollars** that we have handled in a very long time. This scarcer date coin at one time traded for triple the price of common MS-63 Morgans, but now you can own it for less than double.

At the huge Long Beach Coin Exposition last week, I was able to pick up a conservatively graded lot of **Choice Mint State-63 Proof-Like and Very Choice Mint State-64 Proof-Like 1881-S Morgan Dollars**. The 1881-S Morgan is the most common date in Mint State, but Proof-Like Issues are much less common. What makes these coins even

more desirable is that most of these coins have at least one side that is so reflective that it could be better described as Deep Mirror Proof-Like. Please see our enclosed offers for details.

## Gold And Gold Coins

Gold settled today at \$1,364.75, down a moderate \$18.50 (1.3%) from four weeks ago. Like silver, I consider today's price to represent a nice rebound from the January 27 low of \$1,318.00.

A few months ago, I had forecast that gold could reach \$1,600 by the end of January. Obviously it is higher than when I first made the prediction, but the price never got close to my projection.

Still, I have a history of being right, though premature in my time frame. As the price of silver climbs by the end of March, I expect it to help spark a rise in gold prices. Don't be at all surprised if gold makes it to \$1,600 by March 31.

My favorite low premium options are still **US American Arts Medallions** (3.7%), the **Austria 100 Coronas** (3.7%), and the **Mexico 50 Pesos** (3.8%). Unfortunately, none of these are exact one ounce gold content coins (the Medallions were never give a face value or legal tender status), so many people prefer paying a little extra for other choices.

With the weakness in gold prices for much of January, we did not see the typical recovery in the prices of **Classis US Gold Coins**. Most coins are now trading at lower prices and also at lower premiums to their gold content than they did a month ago. However, there are signs that this could be about to change.

First, the recovery in the gold spot price is drawing attention. Second, there were actually a number of price increases in Gem Mint State-65 Gold Coins, which could portend that the market has hit bottom and now is on the way up.

I have not been a fan of most grades of **Common Date US \$20.00 Liberties and St Gaudens**. They may do well in the next few months. But I think the better appreciation prospects apply to **Better Date MS-62 and MS-63 \$20.00 St Gaudens**. I was delighted to pick up a variety of issues at the Long Beach show last week. Enjoy checking out the enclosed flyer.

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