

Liberty's Outlook

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Liberty Coin Service's Monthly Review of Precious Metals and Numismatics

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1999—Metals, Rare Coins Build Solid Base For Big Payoff! Will It Happen In 2000?

Page 4: Opportunity In Platinum!

As a whole, 1999 was an exciting year for precious metals and rare coins.

A year ago, after reviewing fundamental supply and demand data, I thought there was a good chance that 1999 might be a breakout year for bullion and rare coins. Gold did have an extraordinary surge late in the year, platinum ended the year near its annual high, and palladium reached all-time highs. However, I was disappointed with how the gold, silver and rare coin markets performed by year-end.

Despite those disappointments, gold, silver and rare coins built solid market bottoms in 1999 from which to spring to new highs in 2000 and beyond. But before I look ahead, let's briefly examine the highs and lows for 1999:

Gold: Gold finished 1997 at \$289.00, 1998 at \$288.75, and 1999 at \$288.25. On the surface, that doesn't sound like much happened for the past two years. However 1999 prices ranged from a low of \$253.00 on August 25 to a high of \$327.00 on October 5, a range of 25.6% over the course of the year. That was almost double 1998's volatility.

Gold prices took hits in May and July when the Bank of England announced a modest multi-year series of auctions and then conducted the first auction.

This unexpected source of gold supply compounded the fears of potentially huge governmental sales from the Swiss central bank and the International Monetary Fund (IMF). Gold prices hit their lowest levels in 20 years. The popular media was filled with articles on the obsolescence of gold as a financial asset.

Just when there just didn't seem to be any possible good news on the horizon, an agreement hammered out in Washington, DC on the last Sunday in September set limits on gold sales and lease operations for the next five years. The agreement covers about 85% of worldwide government gold holdings.

Market reaction was swift. The huge number of investors with short positions

scrambled to cover. Within six weeks, the price of gold soared almost 30%! The price hikes would have been much larger except some multinational banks refused to foreclose on mining companies that were in default of their gold leases. (The U.S. government is currently investigating this discriminatory treatment, which could result in another massive round of short covering sometime this year or next.)

Low prices spurred worldwide physical gold demand to set all-time records in the 4th quarter of 1998, again in the 2nd quarter of 1999, and once more in the 3rd quarter of 1999. Jewelry usage, the largest component in total demand, set all-time records. Investment demand reached its highest levels in years.

Silver: Silver ended 1998 at \$5.01. It spent only a handful of days below \$5.00 during the year, hitting a low of \$4.90 on May 28. Silver touched its 1999 high at \$5.78 on September 28, just as gold was starting its surge.

Unlike gold, silver traded more quietly than in 1998, when the news of Warren Buffet's purchase of 130 million ounces of silver propelled silver up over \$7.00. In 1999, not even mega-billionaire Bill Gates' acquisition of a 10.3% ownership interest in one of the world's largest silver mining companies created a stir.

In retrospect, it seems obvious that the large amount of silver liquidated at high prices in early 1998 provided more breathing space for silver traders than might rationally be expected.

Silver inventories continued to drop markedly in 1999. In fact, there was so little physical silver in the U.S. that several major U.S. depositories discontinued offering storage services, including Citibank, Chase, and Credit Suisse in New York, and Bank of Delaware and

Record-Setting Production of 1999 Gold American Eagles

Through December 30, 1999, the U.S. Mint had reported the following year-to-date mintage figures for 1999 Gold American Eagles. Alongside we identify how the mintage compares against full-year mintages since the program began in 1986.

	<i>Mintage</i>	<i>Rank</i>
1 Oz	1,410,000	2nd highest
1/2 Oz	232,000	2nd
1/4 Oz	512,000	2nd
1/10 Oz	2,560,000	1st

The total number of gold Eagles produced, 4,714,000 coins, also set a record for any year!

Wilmington Trust in Wilmington, Delaware.

There are two major indicators I use to anticipate near term large jumps in the silver price. The first is the premium at which U.S. 90% Silver Coin is selling. For all of 1999, the premium was above 2%, which means that 90% Coin could not be economically recycled by the refiners, effectively reducing supply.

The second indicator, the premium of London silver (traded in the form of .9999 pure bars) over New York Comex silver prices (traded in .999 purity bars), was below the 5-7 cent level for all of 1999. With such a low premium, traders cannot profitably take delivery on U.S. contracts, refine the silver to London standards, then ship the new bars to vaults in London. That tells me that there was no shortage of silver in London, the world's largest silver trading market.

However, the premium, which had been at 0¢ for much of the summer, has been gradually climbed to a current 3¢. Although that doesn't portend an imminent surge in silver prices, it just might be the early signs that silver is getting closer to a rapid breakout.

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Platinum: Platinum finished 1998 at \$367.00, then fell to as low as \$343.00 on July 28. On September 27, as gold was starting its rise, platinum closed at \$386.00. The very next day it closed at \$412.00. Since then, its only close below \$400 was at \$399.00 on September 30.

On December 29, platinum closed in the U.S. at its 1999 high of \$430.00, then finished the year on December 30, at \$426.00, up 16.1% for the year.

Russia, which normally sells 15-20% of worldwide supplies, sold no platinum in 1999. This was the third consecutive year that bureaucratic problems interfered with sales. Although platinum enjoyed some upward price pressure because of the delay, the market price also takes into account that Russian shipments could resume any day.

The ultimate reason that platinum prices rose in 1999 is that industrial demand is finally outstripping supply, whether or not Russia makes any sales. For a string of more than ten years, new platinum supplies exceeded industrial demand. Those surpluses ended three years ago.

The relative shortages are small compared to gold or silver. However, I believe that recent strong platinum prices are more due to market fundamental supply and demand factors rather than by short-term paper contract transactions (which is the situation with both the gold and silver markets).

A two-tiered market has emerged for platinum. The world's major market for supplying industrial users is in Zurich. Contracts for immediate delivery trade at higher prices than contracts for delayed delivery. This is the reverse of normal, a situation termed "backwardation." It exists because buyers and sellers expect some easing of supplies after Russia resumes shipments.

The high spot prices have encouraged liquidation of physical platinum held by investors in the United States. However,

it takes time to refine coins and small ingots into the form of bars that can be sold on the Zurich exchange. As they can only be sold for future delivery at lower prices, the U.S. spot price is now regularly quoted at \$15-20 below Zurich. Right now, buying of platinum coins and bars on the basis of U.S. prices (which is how LCS is currently able to price our product), is a temporary anomaly and a real bargain opportunity.

Palladium: Palladium markets continued to be erratic. On any given day, wholesalers may quote us spot prices that range by as much as \$20. Palladium ended 1998 at around \$340 and ended 1999 at about \$440, just below its all-time high reached in the last week of the year. For the year palladium gained 29.4%.

There was insignificant physical investment demand for palladium during the year. In fact, LCS made no sales to investors at all. However, we did help a number of investors cash in their profits during the year.

I do not recommend palladium for the amateur or small-time investor. The market is thinly traded. Buy/sell spreads are much wider than for other metals. The unstable market is a result of erratic shipments from Russia, supplier of about 2/3 of the world's palladium, and a virtual Japanese industrial cartel that officially has refused to purchase palladium from any source but Russia.

Rare Coins: The rare coin market in 1999 has two different tales to tell—the traditional rare coin market and the market emerging in response to the U.S. Mint's States Of The Union Quarter series that began in January.

At the end of 1998, the market looked bright for rare coins. We seemed to be just past the bottom of the market cycle. Prices were still low, demand was solid and growing, and dealer inventories were at the lowest levels we've seen in years.

For the first part of 1999, the numismatic market was very healthy. Attractive

coins sold quickly at modest price increases. Trophy coins sold for record high prices, including one of the famous U.S. 1804 Silver Dollars that sold for \$4.1 million on August 30.

Then the market took two liquidity hits. In May it leaked out that a massive hoard of 1904 \$20.00 Liberties had come onto the market. The quantity is supposedly in the tens of thousands and may exceed 100,000 coins.

With the overhang of this group of coins, which has not yet been sold as far as we can tell, wholesalers dropped their buy/sell prices on U.S. gold coins.

Lower inventory values led to margin calls against some wholesalers. This led to cash-raising forced liquidations of other common-date "blue chip" coins such as high grade Morgan and Peace Dollars, clobbering prices in several sectors of the coin market.

Then, just as the rare coin market was recovering, an auction company held a massive auction in early October. Previously, the largest single auction events realized \$7-8 million. This auction realized over \$18 million, sapping liquidity from a wholesale market that was already weakened from the havoc over 1904 \$20 Liberties hoard.

The second liquidity crunch further pressured wholesalers to trim inventories. We were able to snap up some outstanding bargains in better date and scarce type U.S. coins. For the next two months, prices for "blue chip" U.S. coins slipped downward. The eight coin U.S. Gold type set that we offered at \$11,700 at the start of 1999 got down as low as \$8,500. MS-65 Peace Dollars that were selling at \$135 at the start of the year, hit bottom at \$100.

Prices fell low enough that promoters and telemarketers jumped in to buy product. If I had to put an exact date at which the rare coin market turned around, it would be December 21. Because of ultra-low inventory levels, prices could quickly

Did You Know?

When Prince Charles and Lady Diana married in 1981, there were over 125 different coins issued by dozens of nations to commemorate the event. Mintages were so high that almost all of the issues are now available at much lower prices.

Here we go again. It seems like most nations around the world are looking to make a profit by issuing commemoratives for the year 2000. Dozens of private companies are also producing medals and tokens that will be carefully marketed so that the casual buyer may think they are legal tender coinage. A number of the products have breathtaking artistry. But, once again, virtually all of the private issues and most of the official coins will turn out to be a poor financial investment. As a general rule, steer clear of buying any commemoratives unless you love the beauty or the theme enough that the financial future doesn't matter.

Here's how you can get better value for your hard-earned money. I expect that almost any coin dated 2000 will be a popular collectible. Instead of commemoratives, consider buying bullion-priced gold, silver and platinum coins with the 2000 date. Don't pay any extra to get that date as I expect mintages to be quite high. However, you will be getting a treasured memento of the year and you just might make a nice profit with rising metals prices in years to come.

Other things to consider keeping are the change in your pocket that has the 2000 date, or the 2000-dated regular proof coins and sets issued by the U.S. and other mints.

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jump in the next month or two.

So, at the end of 1999, the pre-existing rare coin market looks even more promising heading into 2000 than it did a year ago. Many prices are lower than a year ago. Supplies are definitely tighter than they were a year ago. And now demand is picking up.

The Mint's States Of The Union Quarter series took the public by surprise. Although the Mint tried advance publicity for the coming change in circulating coinage, very few bank employees (for instance) even had a clue.

Interest in the new quarters quickly soared—even more than I forecasted! By the end of 1999, the U.S. Mint reported that almost 100 million people were collecting the new coins! Manufacturers of hobby supplies simply could not keep up with demand for albums and other holders.

So many coins are being saved that, by year's end, banks were experiencing difficulty obtaining enough quarters from the Federal Reserve to meet the everyday needs for commerce.

As we have seen repeatedly, when there are major changes in U.S. coins or currency, the number of collectors increases. It looks like the American Numismatic Association, for example, will enjoy at least a 10% increase in membership for 1999 after several years at static levels.

Generally, new collectors start off with the inexpensive coins, such as those that can be found in change or buying new sets issued by the U.S. and other mints. Gradually, some of them expand their interests to past issues. At LCS we have already seen an increase in demand for prior year U.S. proof sets, for instance.

While the traditional coin collecting market has thus far seen little impact from the influx of new collectors, a boom in the next two to five years seems virtually inevitable.

The Crystal Ball—2000 And Beyond

In the early months of 2000, I think there could be a drag on some kinds of physical precious metals and rare coins. The ones that will be most affected are those that were most hyped as "Y2K" survival necessities.

I tried to advise our readers that buying precious metals and rare coins for a multitude of long-term "insurance" reasons, not just against the possibility of one single calamity such as the calendar turning over to January 1, 2000, was the sensible approach. Within that context, I suggested avoiding products whose prices

had jumped because of temporary Y2K demand.

Nonetheless, LCS and dealers across the country sold enormous quantities of high-priced 1/10th Ounce Gold American Eagles, for instance, simply because some so-called Y2K experts said that was the only gold coin to own.

Many of these same "small picture" buyers of Y2K gold, silver, and rare coins will now doubtless be in a hurry to cash out their holdings now that "the end of the world as we know it" did not come to pass a few days ago. Premiums have already started to fall on the same products than ran up a year ago, including

- U.S. Silver Eagle Dollars dated 1999 and before
- U.S. Gold Eagles of all four sizes dated 1999 and before
- Common-date average circulated Morgan and Peace Silver Dollars
- U.S. 90% Silver Coin
- 1 and 10 Ounce Silver Ingots

In almost all instances, such Y2K-only buyers will be selling at a loss. They paid too much to buy, and then will sell out before markets rise to profitable levels.

Once past this expected sell-off, I am highly optimistic for precious metals and rare coins in 2000 and beyond.

Gold and silver are still experiencing huge decade-long supply shortages. The Washington agreement last September should pinch gold supplies even further in 2000. I expect that gold will average above \$300 for the year and have at least a 50% chance at ending the year above \$330.

As for silver, when falling supplies bring on the inevitable and long overdue crisis, I expect silver prices to easily pass \$7.00 and may well peak above \$10.00. I give the market a 50% chance at reaching \$10.00 before the end of 2000 and a 75% chance that it will do so before the end of 2001.

The markets for platinum and palladium are much foggier to forecast. With the current shortage of platinum supply, I doubt that prices will dip much below \$400. But I also don't expect it to top \$500 this year.

I get most excited when I look at the rare coin market. A huge increase in demand is virtually a sure thing in the next few years. With today's attractive prices today and limited supplies, there appears to be almost no downside.

On top of that, add the impact of the 2000 date. Virtually all 2000-dated coins are potential heirlooms to be saved! It won't matter if the coins are bullion issues, collector sets, or ordinary coins put

into circulation. Coins are going to be one of the most popular keepsakes of the year 2000.

In summary, while 1999 didn't quite live up to my expectations, I am even more optimistic for precious metals and rare coins in 2000 and beyond.

U.S. Mint Makes A Deal With General Mills

The U.S. Mint's current plans are to release the new golden-colored (but not gold) Sacajawea dollar coin into circulation on March 1. Before that, no coins were supposed to be available to the public.

In one of the most unusual deals the U.S. Mint has ever entered into, however, the General Mills company has already received quantities of 2000-dated Lincoln cents and Sacajawea dollars to be used in a sales promotion.

As I understand it, you may already be able to purchase boxes of General Mill Millenios cereal at your local grocery store. Each box will contain a 2000-dated coin. Most will be the cents, but some will contain the dollar.

I don't know the terms of the deal, but I will report them when I find out.

There are mints around the world that will produce commissioned coinage. Over the years, LCS has been solicited by some of them. This deal between the Mint and General Mills may indicate that the U.S. Mint is also forsaking the integrity of its mission. If so, that saddens me.

Still, I find the General Mills promotion exciting in one respect. Here is a multinational corporation thinking that current U.S. coinage is so popular with the public that it can be used to promote sales of their products. To me, that is just one more sign of the coming of the next boom market in rare coins.

Gold and Gold Coins

Gold closed today at \$281.00, down \$8.50 (2.9%) from a month ago.

Gold dropped early last month after the Netherlands announced that they would use part of the unused limit for central bank sales to sell perhaps as much as half of their remaining gold reserves. But gold proved resilient, topping \$290 just before the end of the month.

Gold has settled a few dollars this week, prompted at least in part by sizeable liquidations by Y2K buyers.

It is quite possible that a two-tier market may develop for U.S. **American Eagles** where prior year coins trade at lower prices than 2000-dated issues. We are receiving a number of orders specifically for 2000

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coins (which we have in stock), but negligible interest otherwise.

We have also purchased large quantities of South Africa **Krugerrands** this week. It seems like many of these were from long-term holdings that would have been liquidated in 1999 but the for Y2K concerns. We have not experienced sizeable sales to us of any other gold issues.

Once this one-time sell-off has run its course, expect the price of gold to strengthen. It is now low enough that demand in the Far East should soar. The best values right now are still the Austria **100 Corona** (3.4%), U.S. **American Arts Medallion** (3.3%), South Africa **Krugerrand** (3.8%), and Mexico **50 Peso** (4.0%).

As I said earlier, **Common-date U.S. Gold Coins** bottomed-out about two weeks ago. Prices are a lot more reasonable now than they have been over the past year or two. I would recommend them except that I think there are even better values in **Better-Date U.S. Gold Coins**. Our offering of **Choice Mint State-63 and -64 \$2.50 Sesquicentennial Commemoratives** is a perfect example. See the offer for details.

Silver and Silver Coins

Silver closed today at \$5.18, unchanged from a month ago.

The price held steady most of December, rising at the end of 1999. Like gold, the price has fallen this week (temporarily I think) as Y2K buyers have liquidated circulated common-date U.S. **Morgan and Peace Dollars**, U.S. **Silver Eagle Dollars**, U.S. **90% Silver Coin** and all sizes of ingots.

Premiums for the dollars have already dropped significantly, and likely have further to fall. I doubt that 90% Coin or ingot premiums will decline—are already low premium bargains.

We already have 2000-dated Silver Eagles in stock. The Mint released so many coins that there doesn't seem to be the panic buying like we saw a year ago. Distributors are still charging a too-high premium for the date. With the large quantities available, I suspect the premium on 2000 Silver Eagles will likely fall by \$1.00 per coin within the next six to eight weeks.

Common Date Morgan and Peace Dollars are excellent values right now. Among them, we think the **Very Choice Mint State-64 Early Morgans** are the most attractive. Unfortunately, with wholesaler inventories so thin, prices may

The Month

Gold Range	\$ 14.50	5.0%	
Net Change	-8.50		
Silver Range	.31	6.0%	
Net Change	+0.00		
Gold/Silver Ratio	54.2		
Net change	-1.7		
Platinum Range	18.00	4.3%	
Net Change	-9.00		
Platinum/Gold Ratio	1.47		
Date	Gold	Silver	Platinum
Dec 01	289.50	5.18	421.00
Dec 02	285.25	5.10	419.00
Dec 03	280.75	5.12	420.00
Dec 06	276.75	5.12	418.00
Dec 07	283.75	5.16	420.00
Dec 08	282.25	5.14	420.00
Dec 09	278.75	5.12	417.00
Dec 10	279.25	5.13	419.00
Dec 13	280.50	5.12	423.00
Dec 14	280.50	5.20	423.00
Dec 15	283.00	5.20	420.00
Dec 16	282.50	5.22	422.00
Dec 17	284.25	5.23	418.00
Dec 20	284.75	5.21	412.00
Dec 21	287.50	5.17	418.00
Dec 22	287.25	5.23	422.00
Dec 23	287.25	5.22	425.00
Dec 24	closed		
Dec 27	288.50	5.22	423.00
Dec 28	290.00	5.21	427.00
Dec 29	291.25	5.38	430.00
Dec 30	288.25	5.41	426.00
Dec 31	closed		
Jan 03	closed		
Jan 04	282.75	5.34	413.00
Jan 05	281.00	5.18	412.00

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

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

coin at bullion kind of prices.

In 1999, the U.S. Mint struck only 37,000 Mint State 1/10 Oz Platinum Eagles. Only two Platinum Eagles in 1997 or 1998 had any lower mintages. The 1997 1/4 Ounce has a mintage of 18,000 and currently sells for \$230. The 1997 1/2 Ounce, with a mintage of 24,000, sells for \$460. Obviously, collectors and investors love low mintage Platinum Eagles.

We have been watching Platinum Eagle production figures continuously. When the 1999 1/10 Oz mintage remained low in early December, we scoured the country to pick up any bargain lots priced on the basis of U.S. spot prices that we could find..

I will make what I consider a fairly safe prediction—that 2000-dated Platinum Eagles in all four sizes will have the highest mintages yet. Since the U.S. Mint sells their current production to distributors on the basis of Zurich platinum spot prices, the 2000-dated 1/10 Platinum Eagles will probably be retailing in the \$55-60 range.

At our price of \$59 for the low mintage **1999 1/10 Platinum Eagles**, there doesn't seem to be much downside risk—especially since the annual surpluses in the platinum market ended two years ago!

I love the fundamental supply/demand deficits for gold and silver more than platinum. Nonetheless, this could be a profitable one-shot opportunity to invest in both the price of platinum and in the rarity of a low-mintage issue. Moderate and aggressive investors may want to pick up a few pieces.

not stay this low for long. See our enclosed flyer.

Opportunity In Platinum

The two tier market in platinum, with New York Mercantile Exchange prices averaging \$15-20 per ounce lower than the world's largest platinum market in Zurich, presents a temporary opportunity to acquire a low mintage

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