Liberty's Outlook

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Gold, Silver, Rare Coins Outperform Stocks In 2001!

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If you took snapshots of the gold, silver, and rare coin markets as of the end of 2000 and 2001, you might think that little was gained over the course of 2001.

After all, gold was up only 2.5% for the year, silver matched its spot price of a year earlier and various categories of coins were up or down slightly.

It helps to evaluate the results for gold, silver, and rare coins against the alternatives that an investor would consider for investing his or her funds.

In the late 1990s, the benchmarks against which the public judged other investments were the stock markets.

As you can see in the table at the right, gold, silver, and rare coins clearly outperformed most of the U.S. and world stock indices.

On that basis, gold, silver, and rare coins did relatively well.

While past performance is no guarantee of future results, understanding what happened in 2001 can give clues of what to expect in 2002. So, before peering ahead, let's look at how the individual precious metals and rare coin markets performed in 2001.

Gold: After ending 2000 at $272.25, the price of gold slid to a low of $255.50 on February 15 (close to the lowest close since 1979!). For a time, gold seemed stuck in the $260-262 range. Australian mines sold future production whenever the spot price reached $262 ($500 in Australian dollars) but investment demand kept the price from falling much below $260.

When a major Australian gold mining company, Centaur Mining & Exploration Ltd., went bankrupt in early May with a threat that their 1,000,000 ounce sale of future production might have to be repurchased quickly, gold rose 12% in two weeks.

The timing of this jump in gold prices also coincided with the major press conference in Durban, South Africa by the Gold Anti-Trust Action Committee (GATA) where they outlined the evidence behind their lawsuit charging Federal Reserve Chairman Alan Greenspan, the Bank for International Settlements, major central banks, major private banks, and others with manipulating the price of gold downward.

Gold mines began to more urgently reduce their future gold sales. This helped gold gradually rise back above the $270 level, where it has not fallen below since August 8.

The terrorist attacks on September 11 disrupted gold trading as well as other financial markets. The Comex in New York was closed for several days, then opened for only short hours, and has still not returned to its normal hours of operation before September 11.

On September 11, in the absence of paper trading in the U.S., wholesale bullion dealers quoted a spread of prices. The nation's largest bullion wholesaler, for instance, quoted gold at $285.00 if they were buying and at $300.00 if they were selling late in the day on September 11. That was the highest gold spot quoted during 2001.

After September 11, wholesale bullion dealers gradually narrowed their spot price spreads. On September 26, when gold closed at $293.50, it reached its highest close for paper contracts in 2001.

Results For The Year 2001

Numismatics and Precious Metals	
US Proof Silver Eagles, 86-98	+14.1%
US Silver Proof Sets, 1950-64	+12.1 %
Gold	+2.5%
US MS-65 Morgan Dollar	+0%
Silver	+0%
US MS-63 $20 St Gaudens	-5.3%
US Non-silver Pr Sets, 1968-98	-12.7%
Platinum	-18.4%
Palladium	-53.3%
Foreign Currencies vs US Dollar	
Mexico Peso	+5.1%
China Renminbi	0.0%
Swiss Franc	-1.8%
British Pound	-2.5%
India Rupee	-3.1%
Euro	-4.6%
Canada Dollar	-5.4%
Japan Yen	-13.1%
US And World Stock Indices	
Russell 2000	+1.0%
Dow Jones Industrial Average	-7.1%
S&P 500	-13.0%
DJ Total U.S. Market	-13.1%
London FT 100	-16.2%
Frankfurt Xetra DAX	-19.8%
DJ World (excluding U.S.)	-21.0%
NASDAQ	-21.1%

I believe that gold would have jumped even higher on September 11 but for a disquieting note. One news report, on Reuters as I recall, stated that several central banks quietly told gold traders that they stood ready to dump gold on the market if the price rose too much. Not wanting to fight a hopeless battle, many bullion traders have largely sat on the sidelines ever since.

Investment demand for physical gold, which was quiet for the first eight months of 2001, soared in September and has re-

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mained at higher levels.

Gold finished 2001 at $279.00, up $6.75 from a year earlier.

Silver: Silver ended both 2000 and 2001 at $4.58. In January 2001, silver climbed to $4.80, where it closed on the last three days of the month. That turned out to be the high for the year.

Then a rumor that the Reserve Bank of India was preparing to sell 25-50 million ounces of silver put a damper on the market. And, although few were publicly saying "recession" there were indications that industrial demand could decline in the coming months.

For most of the year, the price of silver gradually slipped.

There was a jump in silver after September 11 when it was revealed that about 30 million ounces of Comex silver was buried underneath the rubble of the World Trade Centers.

In early November, when it was reported on the same day that almost all of this buried silver had been recovered and that Kodak's film sales (a major usage of silver) were down 17% from year ago figures, silver resumed its decline. It hit bottom at $4.04 on November 26 and 27, the lowest price for silver in over eight years.

Since then, silver has come back to life. Demand for physical silver has been so strong that prices rose to close at $4.58 on December 31.

Platinum: Platinum prices followed the soaring speculative activity for palladium. At the end of 2000, it was at $602. On January 20, 2001 it reached its highest price in 13 years when it closed at $632.00.

Then, when palladium peaked and dropped sharply, platinum also fell. After September 11, when slumping sales in the automotive industry prompted companies to unload significant platinum and palladium inventories, price declines accelerated.

Platinum hit its 2001 low on October 31 at $418.00. It seems that such a low price was an overreaction. Platinum regained over 17% in the next two months to close the year at $491.

Palladium: If ever there was a market almost totally controlled by speculators, it was palladium from mid-2000 through early 2001. The metal, which rose from $440 at the end of 1999 to $954 at the end of 2000, reached a peak somewhere around $1,100 early in 2001. After it peaked, it fell hard, dropping as much as $100 on some days.

Like platinum, palladium eventually fell too far after the automotive companies dumped part of their inventories in the fall. When palladium closed on October 31 at $318, that was about its low for the year. It then recovered 40% to close 2001 at $443.

Rare Coins: With the notable exception of coins priced above a few thousand dollars, U.S. rare coins mostly held steady or rose in 2001.

A noticeable shift in demand during 2001 was that relatively less money was coming into rare coins for "investment" purposes and more demand was coming from collectors seeking nice coins at today's bargain levels.

This shift is one of the most positive signs for the health of the numismatic market over the next couple of years. Collector demand is long term and almost always expanding while investment demand blows hot and cold.

Here's how some different rare coin categories stack up:

The "bread-and-butter" coins such as lower-priced U.S. circulated 20th Century coinage sold extremely well in 2001. This simply reflects the increase in the number of coin collectors resulting from the introduction of the States Of The Union quarter series in 1999. There was a noticeable surge in demand after September 11 which I attribute to a growing interest in historic Americana. As some of these novice collectors expand their collections, I expect increases in demand for the more expensive U.S. collector coins.

MS-63 and MS-64 type sets of U.S. Gold Coins rose 10-20% over the year, much better than the appreciation in gold bullion. Most of the increases came from the $10.00 and lower denomination coins.

Circulated common-date gold coins, especially $20s, are down near their lowest prices and lowest premiums to gold value since the 1970s. I consider this a healthy development as is reflects the decline of "get-rich-quick" marketing to relatively uninformed buyers. These coins are now at extremely attractive premiums.

Demand for Better-Date U.S. Gold Coins is much stronger than available supplies can satisfy. That has not necessarily translated into higher prices—yet.

High-grade common-date Morgan and Peace Silver Dollars and Mint State Dollar rolls stayed relatively level for the year. Many Better-Date Morgan Dollars appreciated somewhat while Better-Date Peace Dollars tended to slip (which now present an attractive buying opportunity)

Other Mint State Silver Rolls such as Franklin Half Dollars, Kennedy Half Dollars appreciated to multi-year highs. Individual high-grade Walking Liberty Half Dollars showed some strength late in the year, but dipped just before the end of December. Low-mintage 20th Century Proof coins such as Walkers, Mercury Dimes, and Buffalo Nickels held steady to moderately up.

In paper money, the strongest part of the market shifted from U.S. Large Size Type notes to U.S. Small Size Type Notes and National Currency. The strength in this sector comes largely because it enjoys perhaps the greatest increase in the number of collectors of any segment of the numismatic market.

One market segment that evolved substantially during the year, to my dismay, might best be described as "boutique collectible coins." Perhaps the perfect example of these are the high-grade encapsulated Statehood Quarters with the signature of someone who had something to do with the particular design concept. Another example is the 2001 Silver Eagle Dollars with privately-affixed overlays such as for deceased rare car driver Dale Earnhardt.

Typically, such gimmicks are being marketed to the general public and to new, relatively inexperienced collectors. Once the initial sales flurry is over, I anticipate that most prices will decline. If you see a numismatic offer that appears to be cashing in on a passing fad , especially if it is issued by any of a number of African, Caribbean, or South Pacific nations, be careful.

Coins priced above a few thousand dollars had a tough time in 2001. Some of the demand for these trophy coins had come from new collectors and investors flaunting their sudden rise in paper wealth. As the stock markets dropped, so did the discretionary funds to acquire such coins. However, as we neared the end of 2001, LCS and a number of other dealers enjoyed a surge in demand for such coins

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if they could be acquired at bargain prices. While it may take a few years for prices to recover to pre-2001 levels, there is again solid demand for expensive coins.

Overall, the rare coin market was healthy in 2001 with lots of positive indications for future price increases.

Where Are We Headed In 2002?

Gold: There are a number of factors that could boost the price of gold in 2002:

Perhaps the single most influential factor on the price of gold now is the relative strength of the U.S. Dollar. If the dollar weakens, gold will become less expensive in other currencies. Several developments are in place that point to a possible drop in the value of the dollar.

First we have the enormous inflation of the U.S. money supply that was accelerated after September 11. Although the average consumer has not yet felt the effect of this inflation, it will almost certainly pick up steam during the year.

Next we have the replacement of 12 European currencies with a common Euro currency. Central banks are now adjusting their foreign exchange holdings. If they perceive that this Euro will have more clout than the currencies they replace, they may well unload some U.S. dollars to increase their Euro holdings. The China central bank, which has one of the world's largest holdings of foreign exchange, has announced that it intends to adjust its holdings more toward the Euro than it did before.

The introduction of the Euro has spurred increased gold sales in France in particular. The old currencies can be exchanged for Euros through March 31, 2002. One eyewitness at French banks reports that the lines at banks to turn Francs into gold is about triple that of the lines to convert Francs into Euros (which the banks prefer as they make a commission on gold coin sales versus no commission on Euro exchanges). Any general fears of the safety of the Euro will likely spur demand for gold.

Third, the U.S. economy may not recover as quickly as forecasted. The consensus among forecasters is that they U.S. economy will resume growing no later than the second quarter of 2002. If this does not come to pass, look for U.S. stock markets to tumble as Americans and foreigners sell off, with the number of bankruptcies in 2002 perhaps topping the record set in 2001.

The gold price will almost certainly gain support as the mines continue reduce their forward sales. This will have the effect of reducing supply.

Right now, the world's largest and third largest gold mining companies, AngloGold of South Africa and Newmont Mining in Denver, are in a bidding war for Australia's Normandy Mining, another top 10 gold producing company.

Normandy has hedges of 10 million ounces of gold. This week, AngloGold's chairman stated that they would retrench Normandy's hedges down to 5 million ounces to match the 2.5 years of forward sales of the rest of the company. Newmont does not hedge at all and announced that it would eventually eliminate all of Normandy's forward sales.

This one merger alone could reduce worldwide gold supplies in 2001 by 5-10%!

Then there is the continuing Japanese economic crisis. Its banking system has already booked hundreds of billions of dollars of bad debts, and still has an even greater amount yet to write off! The only ways out of the mess I see would involve the Japanese government dumping U.S. Treasury debt and an increase in gold buying by Japanese investors. This would push up the price of gold.

I am not the only one who thinks that one or more of these reasons may boost the price of gold in 2002. Two days ago, Paul Walker, the director of Gold Fields Mineral Services (GFMS), a major precious metals consultancy and research firm, said he expects the price of gold to average $289 in 2002, up from an average price of $271 in 2001.

GFMS, whose clientele includes the World Gold Council, is consistently among the most conservative forecasters. If their forecast is off the mark, it is more likely that gold will average higher than $289 than lower.

For one reason, their projection completely ignores the GATA lawsuit. That case is now waiting for a judge's ruling on motions to dismiss the suit, expected in the next 2-3 months. If the case is not thrown out, it will proceed to the discovery stage, where the defendants must answer plaintiff's questions under oath. I would not be at all surprised to see the price of gold jump over $300 solely on the news that the suit is not dismissed (if that is the result), even before the discovery process begins.

As for the downside risk for gold, there is so much financial uncertainty in the world (I haven't even discussed what is going on in Argentina and other countries) and gold is so cheap now that I think any gold price below $270 will be short-lived.

After 15 years in the doldrums, gold could easily pass $300 to stay in 2002.

Silver: Even with reduced industrial demand, there is still a shortage of newly mined and recycled silver supplies! I still expect a major run up in the price of silver—I'm just apprehensive about predicting when.

There is a major supply squeeze now. Everyone is trying to figure out if it is because of shortage of supplies to cover industrial demand or if one or more parties are trying to manipulate the market as Warren Buffett did four years ago. One rumor is that Buffett (through his Berkshire Hathaway company) has been leasing his 130 million ounces of silver all along and has now demanded its return.

The absence of physical silver for leasing has pushed the one-month lease rates from their normal levels under 4% to as high as 30-35%. At such a high cost and in the absence of hard information as to the cause of the shortage, short-term traders are unwilling to lease silver to sell it short. As a consequence, the silver market is out of kilter, where the current spot month contracts are trading at much higher prices than future month paper contracts.

Even if the current surge in the price of silver (in the London market, it us up 16% in the past six weeks) turns out to be only a temporary manipulation, I expect silver to break sharply upward at some point.

Platinum and Palladium: These two metals, with similar chemical properties, are largely affected by the same factors.

Right now, industrial demand, especially from the automotive industry, is likely to affect the price more than anything else. To support sales volume, the auto companies aggressively marketed vehicles in late 2001 at bargain prices. In the process, they may have taken away from what they would have sold in

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2002. If 2002 vehicle sales fall sharply, look for both of these metals to drop in 2002. Although some forecasters think there is upside potential from current prices, I am not that confident. When the future outlook for gold, silver, and rare coins is so bright, it just doesn't make sense to me to put to much, if any, of your net worth, into these metals.

Rare Coins: Generally I expect a solid though quiet improvement in the rare coin market in 2002, such as we saw in 2001.

The market could get really interesting if inflation fears run rampant. In that situation, I would expect sharp increases in the prices of Gold Double Eagles, other Common-Date U.S. Gold Coins, and in Rolls of Mint State Common-Date Morgan and Peace Dollars and in High-Grade individual coins.

Summary: With the support of low interest rates, we may already be enjoying the next major boom in tangible hard assets, especially in the silver market. But, overall, I think we are in the calm before the economic storm wreaks even greater havoc on paper assets than we have seen in the past 22 months. If you have not already done so, now is an excellent time to begin or add to your gold, silver and rare coins holdings.

Gold and Gold Coins

Gold closed today at $283.50, up $9.50 (3.5%) in the last six weeks.

The lowest premium forms of physical gold remain the U.S. **American Arts Medallion** (2.1%), and Austria **100 Corona** (2.3%). Among small gold coins, I recommend the British **Sovereign** (6.4%).

We were fortunate to locate a modest group of **Mint State-60 Type 2 $20.00 Liberties** that we can offer at an attractive price. See our offer.

After our quick sellout of the Mint State 1918-C Canadian Sovereigns last month, we were unable to locate any more coins in North America. However, our efforts did uncover a small group of **Mint State 1918-I India Sovereigns.** See our flyer for details.

Silver and Silver Coins

Silver settled today at $4.71, up a solid 59 cents (14.3%) from the last newsletter. It is also the highest close in almost a year.

Prices in London, the world's most active silver market, rose even higher—from $4.16 to $4.83, a 16.1% increase.

As I warned in the last newsletter, the second of my major two indicators of an impending sharp rise in the price of silver turned positive in early December. The London silver premium to New York silver prices, which has risen to 4 cents by the end of November, continued to grow. By December 10, the premium was up to 9 cents, more than it would cost to withdraw silver from the New York Comex, refine it to London's stricter standards, and ship it to London. Today the premium is up to 12 cents.

The other indicator, a retail 90% silver premium of 2% or higher, had been positive for at least a year.

As is typical during a rapid rise in the price of silver, the premiums for physical product declined. The price of U.S. **90% Silver Coin** (5.0%) is up only $100 per bag, less than a 3% increase from the end of November.

Even U.S. **40% Silver Coin** (6.9%) saw its premium decline markedly.

Tight supplies of **100, 10, and 1 Ounce Ingots** (11.0-13.8%) have kept their premiums from falling much. Demand is so strong that we regularly need to have ingots fabricated to meet orders.

Given the significant price advantage of 90% Coin, along with its greater liquidity and divisibility, I wholeheartedly recommend this form now.

In the past few weeks, we have repurchased several **Gem Proof-65 and –66 Walking Liberty Half Dollars** from two LCS customers. They are selling at a fraction of their price at the last market peak. Enjoy reviewing our offer.

Cash In Your Obsolete European Currencies—Now!

As most of you already realize, the currencies of 12 European nations including Germany, France, Italy, Spain, Netherlands, Ireland, and Greece were replaced on January 1 by a common currency called the Euro.

The old national currencies can still be redeemed until March 31, 2002. Already, foreign exchange houses are discounting the now obsolete currencies. If you happen to have some leftover currency from any of these 12 countries, we urge you to convert them to dollars promptly. Many banks can help you with this. LCS also purchases foreign exchange, though postage costs usually give your local bank the edge.

The Month

Gold Range	$11.00	4.0%
Net Change	+9.50	
Silver Range	.64	15.5%
Net Change	+.59	
Gold/Silver Ratio		60.2
Net change		-6.3
Platinum Range	53.00	12.2%
Net Change	+45.00	
Platinum/Gold Ratio		1.71

Date	Gold	Silver	Platinum
Nov 28	274.00	4.12	438.00
Nov 29	273.50	4.07	446.00
Nov 30	274.00	4.13	451.00
Dec 03	277.25	4.20	457.00
Dec 04	275.50	4.13	453.00
Dec 05	274.00	4.18	453.00
Dec 06	274.25	4.22	464.00
Dec 07	274.00	4.24	470.00
Dec 10	272.50	4.23	475.00
Dec 11	272.50	4.26	461.00
Dec 12	273.75	4.25	466.00
Dec 13	274.00	4.26	467.00
Dec 14	278.00	4.35	468.00
Dec 17	278.00	4.36	468.00
Dec 18	280.50	4.42	463.00
Dec 19	275.75	4.31	458.00
Dec 20	276.00	4.40	457.00
Dec 21	278.00	4.47	470.00
Dec 24	closed		
Dec 25	closed		
Dec 26	279.50	4.54	471.00
Dec 27	277.50	4.48	480.00
Dec 28	276.50	4.50	486.00
Dec 31	279.00	4.58	491.00
Jan 01	closed		
Jan 02	279.00	4.53	485.00
Jan 03	278.25	4.60	485.00
Jan 04	279.00	4.65	479.00
Jan 07	279.00	4.66	476.00
Jan 08	279.00	4.65	477.00
Jan 09	283.50	4.71	483.00

London Silver Market Premium To New York Silver Market = 12¢

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

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