

Liberty's Outlook

Volume 9 Issue 1 Liberty Coin Service's Monthly Review of Precious Metals and Numismatics January 8, 2003

Gold, Silver, Platinum, Rare Coins Strong, Stocks, Bonds, U.S. Dollar Weak In 2002! Tangible Assets Clobber Paper Assets! Gold Reaches \$350, Highest In Nearly Six Years!

I'm being teased for being ahead of my time. In the early September issue of *Liberty's Outlook*, I stuck out my neck and said "I judge that there is a significant chance that gold could reach \$350 and silver could exceed \$5.50 by the end of next month."

That was a daring prediction, given both the short time frame and also that gold had not closed higher than \$330 in five years.

In the October newsletter, I confirmed my expectation of higher gold prices but pulled back on my silver forecast.

Well, I was only off by seven weeks. Gold topped \$350 in the US commodities markets during intraday trading on December 19. After testing \$350 several times, it finally closed above that level on January 3, 2003 when it settled at \$351.25.

I wasn't as close on silver, though it has been strong in the past few weeks. It is now up about 10% from when I made my prediction in September.

Now that gold and silver have both made significant gains, all I can say is look for even more in 2003!

Precious metals (excluding palladium) and rare coins were strong in 2002, especially compared to paper assets like currencies and stocks. I think it is more likely than not that results in 2003 will be even more dramatic than last year. To give you some background on why I am so optimistic, let us first review what happened last year.

A Look Back At 2002

In the late 1990s, the benchmark against which the public judged other investments was the stock market.

As you can see in the table on this

Results For The Year 2002

<i>Precious Metals</i>	
Gold	+24.6%
Platinum	+22.6%
Silver	+4.8%
Palladium	-46.5%
<i>Numismatics</i>	
US MS-63 \$20 St Gaudens	+15.1%
LCS US Collect Key-Date Coin Idx	+15.0%
LCS US Invest Blue Chip Coin Idx	+10.6%
LCS US Collect Generic Coins Idx	+10.5%
US Silver Proof Sets, 1950-1964	+7.6%
US MS-65 Morgan Dollar	+7.5%
U.S. Non-silver Pr Sets, 1968-98	+6.7%
LCS Invest Better Date Coins Index	+5.6%
LCS US Large Paper Money Index	+4.3%
U.S. Proof Silver Eagles, 86-98	+2.8%
<i>Commodities</i>	
Wool	+120.0%
Natural Gas	+68.6%
Crude Oil, Brent	+65.8%
Soybeans, #1 yellow	+35.6%
Wheat, hard KC	+30.4%
Corn, #2 Yellow	+19.2%
<i>Economist</i> all commodities dollar index	+14.8%

Broilers, Dressed "A"	+12.6%
Beef, choice	+12.2%
Copper	+6.7%
Aluminum	+0.4%
Hogs, Sioux Falls	-18.9%

US Dollar vs Foreign Currencies

Mexico Peso	+13.9%
China Renminbi	0.0%
India Rupee	-0.6%
Canada Dollar	-0.8%
Australia Dollar	-9.0%
Japan Yen	-9.4%
Great Britain Pound	-9.6%
Euro	-15.1%
Switzerland Franc	-16.7%

US And World Stock Indices

DJ World (excluding U.S.)	-15.6%
Dow Jones Industrial Average	-16.8%
Tokyo Nikkei 225	-18.6%
Russell 2000	-21.6%
Wilshire 5000	-22.1%
S&P 500	-23.4%
London FT 100	-24.5%
NASDAQ	-31.5%
Frankfurt Xetra DAX	-43.9%

page, gold, silver, platinum and rare coins clearly outperformed virtually all U.S. and world stock indices.

Sure the Argentine stock market rose 77.7% in the local peso, but the currency fell almost 70% against the U.S. dollar in 2002 for a net decline of over 46% as measured in U.S. dollars.

The only strong stock market in 2002 was in South Africa, a stock exchange dominated by gold mining companies. Surprise, surprise.

The only notably strong stock market industrial sector last year was precious metals—stocks rose 40.5% against the U.S. dollar in 2002 or 34.1% against a weighted-

average of world currencies.

Against an almost complete wipeout in paper assets, tangible assets were solid in 2002. Precious metals rose (except for palladium), rare coins rose, and almost all commodities were higher.

For instance, I think gold rose against each of the world's currencies in 2002!

Let's look at how the individual precious metal and rare coin markets fared in 2002.

Gold: After ending 2001 at \$279.00, the price of gold never looked back. It only closed lower than that three times in 2002, hitting a low of \$278.00 on January 24.

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Gold first passed \$300 on February 8 and has not closed below \$300 since April 16. In the spring, gold trended upward, closing above \$310 for the first time on April 26 and above \$320 first on May 23.

From then until mid-December, gold drifted between just over \$300 to the mid-\$320s. Finally, on December 12, gold broke through the major \$330 resistance point to close at \$331, a three year high.

Often, when a psychological barrier is tested, such as gold at \$330, a lot of profit-taking will quickly bring the price back down. That didn't happen. Gold closed higher every day for the next week.

There was profit-taking as gold tested \$350 on four different days before then end of 2002. Gold closed on December 31 at \$347.50, up a solid \$68.50 for the year.

Silver: Silver ended 2001 at \$4.58 after coming back strong from a low of \$4.04 on November 26 and 27, 2001. Profit-taking set in early in 2002, with silver hitting its low for the year of \$4.23 on January 31.

Silver's movements in the first half of 2002 seemed to be mostly a sympathetic response to rising gold prices. It hit its high for the year on June 4 at \$5.12, the highest silver price since May 4, 2000.

But, in the second half of 2002, it became obvious that the economic slowdown was not over, contrary to forecasts. With investors anticipating continued weakness in industrial demand for silver, its dominant usage, prices fell for most of the rest of 2002, trading in the \$4.30-4.80 range, hitting bottom on October 10 at \$4.28.

The late December surge in gold pushed up the price of silver to end 2002 at \$4.80, up 22 cents for the year.

Massive supply shortages continued in 2002 despite the fall in demand. But, with manufacturers, wholesalers, and retailers all trimming their inventories, there was no spark for the price of silver to make its breakout jump in 2002.

Platinum: Platinum finished 2001 at \$491.00. Like silver, platinum prices declined early in 2002, touching its low on February 1 at \$451.00.

But platinum prices quickly turned

around, topping \$500 on March 4 when it closed at \$512.00. It has not closed below \$500 since then.

Although platinum has subdued demand because it is primarily an industrial metal, it did have support in 2002 in reaction to the technological fallout of the palladium market.

Platinum and palladium have similar physical properties. For a long time, the price of platinum was typically two to four times that of palladium.

When the price of palladium was too low, engineers altered products such as automotive catalytic converters to use more palladium and less platinum. As a rough rule of thumb, it takes two ounces of palladium to perform the same catalytic function as one ounce of platinum.

But there was one problem with palladium. Unlike platinum, where the world's largest producer is South Africa, a nation with a well-developed mining industry, the world's major supplier of palladium is Russia. Russia's mining infrastructure is archaic. The Russian legal framework for exporting precious metals has been a nightmare. Over the past few years, supplies of palladium were constantly interrupted and information as to when supplies would be forthcoming was simply not available.

As a result, manufacturers tried to stockpile palladium. Speculators piled on to force up the price of palladium to a peak around \$1,100 in early 2001. At the peak, the cost of palladium in catalytic converters came to about 10% of the retail price of an average car or truck! Then the palladium market crashed.

With unreliable supplies and uncertain prices for palladium, many products have been reengineered to again use platinum instead of palladium. So, while industrial demand for palladium has plummeted, that has spurred an increase in platinum demand even though the economy is weak.

In the past ten months, platinum prices have gradually trended upward. It finally reached \$600.00 when it closed at that level on December 9. It hit its high for 2002 on December 17 when it closed at \$607.00 and settled December 31 at \$602.00. For the year, platinum rose \$111.00.

Palladium: Palladium closed 2001 at \$443 and saw almost a constant drop since then. It closed 2002 at \$237, a fall of \$206.00.

Part of the reason for the decline in palladium prices was the technology shift to platinum discussed above. But it was also hurt as manufacturers unloaded palladium inventories they no longer needed—the

most notable being Ford Motor.

Palladium has now fallen almost 80% since its peak in early 2001.

Rare Coins: Demand for rare coins was solid almost all year long in 2002. Prices were steady to up in almost every sector. There were some spots of price declines, such as MS-63 and MS-64 type sets of U.S. Gold Coins, but those happened largely because of their high prices at the end of 2001 because of one-shot promotions.

Coins priced under a dollar sold very well in 2002. Top end coins came back to life, with a U.S. 1933 \$20.00 St Gaudens selling in auction for \$7.6 million, almost twice the previous record for the most expensive coin.

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

The "bread-and-butter" collector coins such as lower-priced U.S. circulated 20th Century coinage sold extremely well in 2001. This largely reflects the increase in the number of coin collectors resulting from the introduction of the States Of The Union quarter series in 1999. The U.S. Mint now claims that there are 140 million people collecting the State Quarter series.

As some novice collectors expand their collections, demand for the more expensive U.S. collector coins will rise. Already, existing collectors have been buying up the low-mintage issues of many popular series, known as key-date coins (the 1909-S VDB Lincoln Cent, the 1937-D 3-leg Buffalo Nickel, the 1916-D Mercury Dime, the 1932-D and 1932-S Washington Quarters, 1938-D Walking Liberty Half Dollar, and so forth). Virtually all key-date coins rose in the most popular collector grades in 2002, some by 25% or more.

Circulated common-date gold coins, especially \$10 Liberties, and both \$20s rose in 2002, partly because of higher gold prices and partly because the decline of the U.S. dollar against the euro led to many circulated \$10s and \$20s being shipped back to Europe!

Demand for Better-Date U.S. Gold Coins is much stronger than available supplies can satisfy. Coins that sell for close to common-date prices have started to climb, as have the real rarities. Multi-thousand dollar coins that were a drag on the market in 2001 are

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again selling readily.

High-grade common-date Morgan and Peace Silver Dollars and Mint State Dollar rolls were steady to up for the year. Many Better-Date Morgan Dollars appreciated—the index does not do justice to just how strong they really are.

Other Mint State Silver Rolls such as Franklin Half Dollars, and Kennedy Half Dollars were already at elevated levels in 2001. They largely held steady in 2002.

Low-mintage 20th Century Proof coins such as Walkers, Mercury Dimes, and Buffalo Nickels were star performers in 2002, with some prices up as much as 45%. Most of this increase occurred early in the year, encouraging some new supplies onto the market.

Classic U.S. Silver Commemoratives were solid in 2002, with many increases. But prices are still far below past peak levels, keeping most potential sellers from liquidating.

The paper money market has matured dramatically since we strongly endorsed it in the 1980s. The most dramatic price increases have already occurred. Still, U.S. Large Size paper money prices rose again in 2002, with virtually no declines. Circulated notes did better than uncirculated pieces. Other paper money categories, while still active, have slowed down in terms of price jumps. Large Size U.S. Paper Money prices have nearly tripled since the last major rare coin market peak, while many U.S. coins are down 50-80%. For the next few years, I anticipate that coins will perform better.

As I lamented last year, there were plenty of what I call “boutique collectible coins.” They were heavily marketed and must be selling well enough to encourage more such product.

Some marketers are offering as supposed rare coins the modern bullion coins such as American Eagles that have been certified in extremely high grades by the grading services. Time and again over the years we have seen such high-priced bullion products eventually trade on the basis of their metal value. I don't expect this time to be any different. Don't waste your money paying extra for the plastic. If you would like protective holders for individual coins, we stock high-quality inexpensive ones.

The widespread strength in the rare

coin market is a good sign that we are well on our way into the next boom cycle. In such a market, almost anything seems to make a profit. However, careful purchasing can result in higher than average profits. About the only area in which I would flat out expect collectors and investors to lose money is with these “boutique collectible coins,” though rising bullion prices may even bail them out.

Outlook For 2003

Gold: Last year, I predicted that gold could easily pass \$300 to stay in 2002. It did. This year I think gold could easily pass \$400 to stay. Even \$500 and \$600 are not ridiculous. I doubt very much that we will see gold below \$300 again.

The reasons for this forecast are the same as I have been telling you for the past year—supplies have declined sharply while demand is down only slightly. The mines began aggressively delivering against their pre-sold gold contracts rather than selling all of their output as new production. And, with interest rates so low, the lease rates for gold are also so low that they barely cover the central banks' risk of loss of capital. As a result, central bank supplies are shrinking.

As gold prices rise, that will only add to the pressure for mines to reduce their pre-sold gold positions and for central banks to worry about defaulting borrowers. For these and a lot of other reasons, 2003 could be the best year for gold in the past two decades.

Silver: With any kind of economic upturn, I think 2003 could be the year that silver makes a huge move.

The same fall in demand in 2002 as manufacturers, wholesalers, and retailers kept rein on their inventories could reverse itself in 2003. For instance, if Eastman Kodak perceives that film sales are rising, they will add silver inventory to meet demand. Wholesalers will also add inventory to keep their retailers satisfied. Lastly, retailers will increase their stocks so that they don't lose sales to competitors.

At worst, I expect silver to climb above \$5.00 in 2003. However, it is entirely possible that any economic rebound might spur a mini-silver rush. With psychological support from a strong gold market, silver could easily reach \$6.00 this year. If everything breaks loose, even \$10.00 is not out of the question.

Platinum and Palladium: I believe that a large part of the changeover of platinum for palladium has already occurred. Therefore, I don't expect platinum to be supported by this factor as it seemed to be in 2002. As a result, it is hard for me to see platinum enjoying any significant price increases in 2003, even if the economy rebounds strongly. Unlike gold and silver, platinum does not have a multi-year string of shortages of newly mined supplies to cover industrial demand.

I also don't expect platinum to fall sharply, partly from the support of strong gold and silver prices. I anticipate platinum prices in 2003 to range between \$500 and \$650.

Because manufacturers have been burned by unstable palladium markets, I don't expect demand to rise significantly for years. There is no absolute shortage of supplies. As a result, I doubt very much that palladium will climb back above \$300 this year. In fact, it may not be done falling. I wouldn't be shocked if it went as low as \$150. After all, it was as low as about \$70 in the 1980s.

Rare Coins: Although I expect 2003 to be better than 2002 in the rare coin market, I don't expect to see the crazy price increases of a peaking market until at least 2004 or later. The best time to buy will be early in the year.

Summary: With the support of low interest rates, I believe we are in the early stages of the next major boom in tangible hard assets. Expect it to continue even stronger in 2003.

The median resale price of a U.S. single-family home rose 6.8% in 2002. Even with low interest rates, it is hard to me to imagine that continuing another year while paper assets remain in the doldrums.

After three awful years for paper assets, don't look for a miracle recovery in 2003. At the peak in March 2000, the market value of all publicly-held U.S. companies totaled about \$17 trillion. Now they are worth \$10 trillion after the further \$2.8 trillion loss last year. These are not numbers that encourage investors to jump into the market.

One of my banker friends tells me that investors are now so concerned over the risk of loss of principal that they don't really have to pay anything to attract funds into savings accounts and certificates of deposit.

Still, all of the year-end financial

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analyses I have been seeing have identified gold as about the only bright spot in 2002. With all that extra publicity for gold, we could see even more people taking money from their "no-return" savings accounts or CDs and putting away some bullion and rare coins.

Gold and Gold Coins

Gold closed today at \$353.75, up \$31.50 (9.8%) from last month, and the highest gold close since March 13, 1997. This was the largest one month increase in gold prices since September/October 1999.

A couple of recent developments bode positive for gold in the future. First, the People's Bank of China announced plans to issue 18 series of gold coins in 2003 to meet rising domestic demand. Second, the new Shanghai Gold Exchange is not obtaining enough gold from domestic sources to meet rising demand. They are working to allow foreign companies to sell on the exchange.

Third, New Orleans-based coin dealer Blanchard and Co. filed suit in December against Barrick Gold Corp, the world's second largest gold mining company, and brokerage firm JP Morgan Chase, accusing them of a cover-up to manipulate the price of gold downward. The suit claims that the two companies made \$2 billion in short-selling profits by suppressing the price of gold at the expense of investors. The suit seeks an end to the trading agreements between Barrick and JP Morgan Chase plus compensation for losses to Blanchard customers.

This lawsuit may well have been prompted by the GATA gold manipulation lawsuit dismissed last year. In his opinion, the judge had provided a road-map saying how a successful lawsuit might be pursued. I'll keep you posted on developments.

Higher prices have brought lots of buyers and sellers to the physical gold market. Many gold buyers over the past five years are in a profit position, so some selling was no doubt done to offset tax losses in the stock market.

The most affordable, low premium forms of physical gold remain the U.S. **American Arts Medallion** (2.8%), **Austria 100 Corona** (2.8%), and South

The Month

Gold Range	\$31.50	9.8%
Net Change	+31.50	
Silver Range	.34	7.5%
Net Change	+.30	
Gold/Silver Ratio	72.8	
Net change	+2.1	
Platinum Range	27.00	4.6%
Net Change	+20.00	
Platinum/Gold Ratio	1.73	

Date	Gold	Silver	Platinum
Dec 04	322.25	4.56	592.00
Dec 05	324.25	4.62	595.00
Dec 06	326.25	4.63	598.00
Dec 09	325.75	4.60	600.00
Dec 10	323.50	4.61	596.00
Dec 11	324.75	4.63	594.00
Dec 12	331.00	4.72	597.00
Dec 13	333.00	4.70	602.00
Dec 16	337.00	4.70	603.00
Dec 17	337.50	4.64	607.00
Dec 18	342.25	4.66	599.00
Dec 19	346.00	4.71	596.00
Dec 20	340.50	4.63	588.00
Dec 23	345.00	4.65	588.00
Dec 24	346.75	4.65	585.00
Dec 25	closed		
Dec 26	348.75	4.70	588.00
Dec 27	349.00	4.71	594.00
Dec 30	343.50	4.66	598.00
Dec 31	347.50	4.80	602.00
Jan 01	closed		
Jan 02	346.00	4.81	606.00
Jan 03	351.25	4.90	604.00
Jan 06	351.75	4.90	607.00
Jan 07	347.25	4.81	604.00
Jan 08	353.75	4.86	612.00

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.

Africa **Krugerrand** (3.0%). Among small gold coins, I recommend the British **Sovereign** (6.3%).

One impact of rising gold prices is that we are now offering our modest multi-year accumulation of the rare **Gem Mint State-65+ U.S. 1984 Helen Hayes 1 Oz Gold American Arts Medallion**. With another national dealer quoting 50% above gold value for the entire 10-piece Medallion set, we think the scarcest 1 Oz issue at less than a 25% premium is much more attractive. Unfortu-

nately, we were unable to acquire enough in time, but we want you to have the opportunity to own them before gold prices climb further. See our flyer for details.

Silver and Silver Coins

Silver settled today at \$4.86, up 30 cents (6.6%) from four weeks ago.

Activity in physical silver slowed somewhat in the past few weeks while attention focused on holiday shopping and on the gold market.

The U.S. Mint reported fiscal year sales of Silver Eagles (October 1, 2001-September 30, 2002) were the highest ever, almost 12 million coins.

Higher spot prices have brought down premium levels for physical silver. The low-price leader is still U.S. **90% Silver Coin** (4.8%). It enjoys a price advantage of ten cents per ounce over U.S. **40% Silver Coin** (6.7%) and 23 cents per ounce against **100 Ounce Ingots** (9.5%). Since 90% Coin has greater liquidity and divisibility than the others, I give it my unqualified recommendation.

High-premium products such as U.S. **Silver Eagle Dollars** (41.2%) and Canada **Silver Maple Leafs** (37.0%) are too expensive to consider as bullion. They are fine to purchase for a collection or to give as gifts, but there are better ways to buy bullion. Still, with the increasing number of collectors, there could be a chance of some rare coin appreciation.

Demand for **Mint State Rolls of 1964 Kennedy Silver Half Dollars** is strong enough that they are virtually unobtainable at any price. They are not rare, but they have been heavily promoted with great success in the past two years. We recently picked up our largest quantity in some time that we can offer at much better prices than our competition. Enjoy reviewing our offer, then act quickly.

Michigan Quarter Designs Due Soon

When I checked last week, the U.S. Mint had not yet produced their designs for the five final design candidates for the 2004 Michigan state quarter. However, they are expected within six weeks. Check www.michiganstatequarter.com for an early peek at what the Mint engravers created—when they finally release their work.