Liberty's Outlook

Volume 10 Issue 1 Liberty Coin Service's Monthly Review of Precious Metals and Numismatics January 14, 2004

Silver Soars 20% In Six Weeks!
Gold Hits 15 Year High, Platinum At 24 Year High!
Rare Coins Strongest Since 1980s!

Page 1: 2003—The Year In Review
Page 3: Michigan Quarter Debuts January 26

Those who think that the American stock markets rose sharply in 2002-2003 should look at the box below. If you look at how your stocks performed in relation to the Euro or the Japanese yen, you almost certainly lost money. In the last two years, you likely achieved lower returns in the American stock markets than you would have earned if you had put the same funds into gold, silver, or platinum.

Two Year Results 2002-2003
Measured In Dollars, Euro, Yen

	US Dollar	Euro	Japan Yen
Platinum	+64.2%	+16.2%	+34.5%
Gold	+48.9%	+5.4%	+22.0%
Silver	+29.9%	-8.1%	+6.4%
Russell 2000	+14.0%	-19.3%	-6.6%
DJIA	+4.3%	-26.2%	-14.5%
NASDAQ	+2.7%	-27.3%	-15.8%
S&P 500	-3.1%	-31.5%	-20.6%

Results For The Year 2003

Precious Metals	
Platinum	+33.9%
Silver	+24.0%
Gold	+19.6%
Palladium	-16.5%
Numismatics	
US MS-63 $20 St Gaudens	+42.9%
US MS-63 $20 Liberty	+36.7%
LCS US Collect Key-Date Coin Idx	+36.1%
US MS-65 Morgan Dollar	+18.6%
US Silver Proof Sets, 1950-1964	+17.3%
LCS US Large Paper Money Index	+10.8%
LCS US Invest Blue Chip Coin Idx	+8.2%
U.S. Non-silver Pr Sets, 1968-98	+8.0%
LCS Invest Better Date Coins Index	+6.1%
LCS US Collect Generic Coins Idx	+5.3%
U.S. Proof Silver Eagles, 86-98	+2.2%
Commodities	
Copper	+49.6%
Soybeans, #1 yellow	+39.0%
Natural Gas	+27.0%
Hogs, Sioux Falls	+18.3%
Aluminum	+16.7%
Economist all commodities dollar index	+16.2%
Broilers, Dressed "A"	+15.4%
Beef, choice	+13.5%
Corn, #2 Yellow	+2.6%
Wool	+1.1%
Wheat, hard KC	+0.5%
Crude Oil, Brent	-5.9%
US Dollar vs Foreign Currencies	
Mexico Peso	+7.3%
China Renminbi	0.0%
India Rupee	-5.4%
Japan Yen	-9.6%
Great Britain Pound	-10.9%
Switzerland Franc	-11.7%
Euro	-19.8%
Canada Dollar	-22.3%
Australia Dollar	-33.7%
US And World Stock Indices	
NASDAQ	+50.0%
Russell 2000	+45.4%
DJ World (excluding U.S.)	+38.6%
Frankfurt Xetra DAX	+37.1%
Wilshire 5000	+29.4%
S&P 500	+26.4%
Dow Jones Industrial Average	+25.3%
Tokyo Nikkei 225	+24.5%
London FT 100	+13.6%

If you have been acting on our recommendations for the past couple of years, pat yourself on the back. You racked up some great profits in 2003.

A year ago, I predicted that gold and silver would make significant gains in 2003. They both did.

Past results do not automatically continue in the future.

Even though I tend to be cautious in my forecasts, I think 2004 and 2005 will once more show precious metals and rare coins clobbering the American stock markets.

Let's go back 16 months. In the September 2002 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, both for the short time frame and also because gold had not closed higher than $330 in five years.

Well, my bold prediction was seven weeks premature for gold. Silver took another year, not passing $5.50 until December 8, 2003.

The great news for hard asset investors is that those high prices of my bold predictions sixteen months ago have now been left in the dust. Before profit taking kicked in this week, gold soared all the way to $426.00, its highest close since December 6, 1988!

Silver climbed as high as $6.59 this week, its highest close since February 19, 1998. In fact, other than a few weeks in February 1998 where there was a supply squeeze caused by Warren Buffet's Berkshire Hathaway 130 million ounce silver purchase, silver is now is at its highest levels since 1988!

Normally, after markets have such a long strong rise like we have seen in the gold, silver, platinum, and rare coin markets over the past two years, we see profit-taking and a retrenchment in prices.

Although there is always some possibility of prices stabilizing or falling slightly, I think the current factors driving down the value of the US dollar will continue pushing up hard asset prices—a lot.

Let's quickly review the year 2003.

A Look Back At 2003

The big financial news in 2003 was the decline in the value of the US dollar.

The dollar fell 9.6% versus the Japanese yen despite the Japanese government purchasing $168 billion of US Treasury debt to

(Continued on page 2)

Inside this issue:

Just How Strong Are U.S. Stock Markets?	page 1
Join Us For "Cans For Quarters"	page 3
Pictures From The Denver Mint	page 4

(Continued from page 1)
support the dollar.

The European Central Bank did not weaken its stature by buying massive quantities of dollars. As a result, the dollar fell by a greater amounts against the Euro, a whopping 19.8%, than it did versus the yen!

(I also noticed that the dollar fell by an even higher percentage in 2003 against two nations where precious metals are major exports—down 22.3% to the Canada dollar and 33.7% to the Australia dollar! Coincidence? I think not.)

If the US dollar had held its own in 2003, I think gold and silver would still have appreciated on the basis of fundamental long-term supply shortages. Instead, they both experienced major increases because of the weakness of the dollar.

So, why is the US dollar falling? The quick answers are that the Federal government is running a huge budget deficit and imports are exceeding exports by record amounts. To finance the deficits, the Federal government has been 1) selling massive amounts of debt to other central banks, especially Japan and China, and 2) inflating the money supply by far greater levels than realized by the general public.

Normally when the value of a currency is depreciating because of inflation, creditors insist on higher interest rates to protect themselves.

Thus far, interest rates have been held down with the Federal Reserve using almost every gimmick (like raising the specter of deflation) in the book to do so.

Virtually every economic prognosticator is warning that inflation is looming. The optimists among them expect the effects to be held in check until after the 2004 elections in November.

These experts are forecasting dire consequences for the value of the dollar once inflation runs rampant. For instance, some think that the dollar may lose as much at 50% of its current value against the Euro and the yen. The dollar may not fall that far by the end of 2005, but it could.

There are two likely results when other central banks and foreign investors look at potential losses in the value of the US dollar—their demand for new purchases of US dollar debt (an US stocks!) will fall and they are more likely to sell their current holdings.

Should either of these shifts transpire—and I expect them both to happen—that would make it all but impossible for the US government to continue to prop up the value of the US dollar while holding down interest rates.

When the dollar starts falling even more dramatically than we have seen in the past two years, investors will seek other safe havens for their hard earned wealth. Other currencies are just about as shaky as the dollar, so they do not represent safe alternatives. Instead demand for gold is almost guaranteed to soar just as it always has in the time of fiscal crisis over almost all of recorded history.

Gold's strong rise in the past two years is a clear warning of rising inflation, no matter what kind of spin government officials put forth. It is entirely possible that, despite the best efforts of President Bush and Fed Chair Alan Greenspan, that the effects of inflation will break out before the November elections. With rising interest rates, expect to see a falling real estate market, a financial sector that has been supported over the past few years by low interest rates.

Higher precious metals prices will encourage more exploration and mine development, but have little near-term impact on continuing gold and silver shortages. Eventually, gold and silver will reach equilibrium levels, at what I expect to be much higher than current levels.

Let's briefly look at how individual precious metal and rare coin markets fared in 2003.

Gold: After ending 2002 at $347.50 the price of gold strengthened over the course of 2003. Prices started to fall after the war in Iraq started, hitting a low for the year of $321.00 on April 7. Gold then mostly climbed until hitting its high for the year on December 30 at $416.50. It ended 2003 at $415.50.

The gold mines enhanced their profits in the 1990s by pre-selling their future production at guaranteed prices. This pre-selling had the effect of increasing supplies on the market and putting downward pressure on gold's price.

As long as the spot price of gold remained below the contracted price, the mines improved their financial results. But, as the price of gold started to rise, gold mine profits suffered. For the past two years, the gold mining industry as a whole has been aggressively reducing its pre-sold gold positions, accentuating supply shortages. Still, the price of gold has jumped so much that the dollar value of the exposure for pre-sold gold is higher today than it was at the beginning of 2003!

In effect, the higher the gold price rises, the greater the pressure for the mines to close out their pre-sold gold contracts, which will put even more upward pressure on the price of gold. I expect the mines to continue aggressively reducing the pre-sold position in 2004, Even after the buy-backs of the past two years, the industry is committed to deliver about 75 million ounces of gold—almost one full year of worldwide mine production. In 2004, I would not be surprised if the mines use 20 million ounces of current production to close out pre-sold contracts.

So, even if somehow the combined trillion dollar Federal government budget and trade deficits disappear, and inflation is kept in check, the price of gold is almost certain to rise in 2004.

How high will it go? I think there is a strong chance that gold will top $500 by the spring of 2005. If gold makes it to $450 before November, I would raise my forecast to $600 by the spring of 2005. If the economy really unravels, even $1,000 gold is not out of the question.

Silver: After ending 2002 at $4.80, silver languished for much of the first half of 2003, hitting a low of $4.35 on March 21. The low prices spurred massive purchases of physical silver by savvy investors. Premiums for physical silver rose.

As silver prices rose, especially near year-end, premiums declined. However, premiums are still too high for refiners to profitably purchase ingots and US 90% Silver coins to melt down to fill industrial orders.

Silver hit its high of the year on December 30 at $5.97 and ended at $5.95

Once it became evident that investors thought that the US economy was recovering from the recession, demand for raw materials such as silver started to climb. As you can see in the table on the front page, copper and aluminum prices were also up significantly in 2003.

As I have reported over the past several years, silver's price was far too low, given the huge supply shortages every year since 1989 and the dwindling inventories available to cover the shortages. Silver is more of an industrial metal than financial, so the recession has held fabricator demand in check for the past two years, influencing investors to ignore the silver market altogether.

Now the manufacturers anticipate a strengthening economy, both fabricators and investors are adding to their silver holdings, producing a double dose of upward pressure on the price of silver.

If the economy falters, investor demand for physical silver will soar. If the economy stays strong, then industrial demand will rise. Either way, it is almost a sure thing that the price of silver will rise in the next two years—by a lot.

We could easily see silver top $8.00 this year. In my in-depth analysis, most

(Continued on page 3)

(Continued from page 2)
recently detailed in the July 2003 issue of this newsletter, I conclude that the silver price needs to be somewhere in the $12.00-16.00 range to reach a long-term equilibrium. Before it settles in that range, though, I expect to see silver overshoot the mark, passing $20.00. It is not out of the question that we might see these levels by the end of 2005.

Platinum: Platinum's price has surprised me. After ending 2002 at $602.00, it held steady before rising sharply. Platinum touched its low for the year on May 1 at $598.00 and rose all the way to a 2003 high of $819.00 on December 16. The metal ended 2003 at $806.00, but has climbed sharply thus far in 2004.

Compared to gold and silver, the current platinum supply shortage has been much shorter and of a smaller magnitude. Because of that, I did not expect platinum to rise above $700. However, unexpected supply shortages from Russia and an increase in industrial demand have magnified the supply shortfall. As a result, current platinum prices are at their highest levels since 1980!

High platinum prices have hurt jewelry demand, which will put a damper on prices in 2004. If the economy sours and industrial demand drops, the platinum market could easily return to a surplus. Because the gold and silver markets have stronger long-term fundamental shortages, I would feel much safer putting my hard earned money into them and give platinum a pass. In normal markets, I expect platinum's price to be 20-50% higher than that of gold. If that happens, we could actually see platinum prices decline by the end of 2005.

Palladium: Palladium has performed so poorly in the past two years that investor physical trading has almost come to a standstill. We no longer track the price of palladium on a daily basis.

After finishing 2002 at $237, palladium continued to fall, dropping all the way to around $167. Although the price recovered somewhat, it had difficulty holding over $200, finishing 2003 at $198.00.

Other than noting that there is a surplus of current palladium supply compared to demand, I have no sage insight into this market. In general, the physical palladium market is so thin that investor spreads are wider than I find acceptable. When you also consider that the palladium market is highly manipulated by the suppliers and industrial fabricators, I don't recommend it for investment.

Rare Coins: As you can see in the table on the front page, the US rare coin market had a solid year across the board. The one area that might seem to be lagging was the Proof Silver Eagle Dollars. They were quiet in 2003 after enjoying spectacular increases the previous two years, so I am not unhappy with their overall multi-year performance.

If anything, the indices understate the strength of the rare coin market. To compile the data without personal bias, I use published wholesale reports that give approximate bid and ask prices for coins.

In weak markets, coins will tend to trade more on the basis of "bid" while the "ask" price may be more accurate in strong markets, especially with better-date issues. By always using the bid number for the indices, the results under-report what is actually happening in today's market.

Such is the case with the US Better Date Coins Index. Using the raw data, it says that prices rose 6.1% in 2003. However, I think an analysis of the prices coins are trading between dealers will show an average increase of 15-20% for 2003.

Over the past several months, I have reported several examples of this phenomena, such as a silver dollar that had a bid value of $500 that we sold to a dealer for $700.

The rare coin market is still in the early stages of its next boom. Many prices today are still 50-90% below those of past market peaks. While gold or silver might double or triple, there is the potential for a number of coins to rise much more than that in the next few years, to even five or ten times current prices!

For more than the past six months, collectors have become much more aggressive chasing down coins for their collection. In turn, this has dried up supplies on the wholesale market, leading coin dealers to more diligent efforts go acquire inventory, which usually means paying a higher price. Inventories of nice coins are already thin.

In such a market, the services of an experienced dealer like LCS is even more important than ever. We have been through booms before, and can help you avoid the hyped fads and focus on solid quality and enduring value. We plan to be in business when you are ready to sell, and want you to offer us coins that we would be delighted to purchase.

For a more thorough discussion of the current state of the rare coin market, please reread the November 2002 newsletter (you are welcome to request a free copy). In quick summary, here are some areas that I especially like for good value right now:

1) Many U.S. Gold Type coins other than $20s in MS-63 and MS-64 quality;
2) Better-Date U.S. Gold Coins;
3) Classic U.S. Gold Commemoratives issued 1903-1926
4) Better-Date Morgan and Peace Silver Dollars;
5) Classic U.S. Silver Commemoratives issues 1892-1946;
6) U.S. Type Coins from the 1800s to early 1900s.
7) Special Opportunities—such as Mint State Rolls of low mintage Coins, coins available in much higher grade than typical yet priced at little to no premium in price, or Shield, Liberty, and Buffalo Nickels before the newly designed Jefferson Nickels come out this spring, and the like.

Michigan Quarter To Debut January 26!

I advised you a few months ago that the US Mint was so far behind schedule working on the design for the Michigan Quarter that it might not be released on January 2, as has happened for the five previous State quarters that were released in January.

It turned out that the Michigan Quarter was so far behind that the Mint did not even begin striking them until last week!

My son Daniel and I were honored to be among the 12 guests participating in the Michigan Quarter Ceremonial Strike Ceremony at the Denver Mint last Thursday. I struck coin #6 and Daniel made coin #15. We left these coins behind so that the Mint could insert them in special holders.

US Mint Director Henrietta Holsman Fore will present these coins to us and the other Ceremonial Strike Ceremony participants on January 26 at the Michigan Quarter Release Ceremony at the State Capitol here in Lansing. Daniel has a surprise part in the program that day, but it is a secret until the 26th. I might also have a small part in the event.

On January 26th, LCS will be closed until after the conclusion of the ceremony at the Capitol. When we open, we will begin our "Cans For Quarters" food drive to benefit the Greater Lansing Food Bank, with a surprise Lansing area leader slated to make the first food donation. We will not sell the Michigan Quarter until April, as people will be able to obtain them readily at the banks from early February onward. Instead, we will give away quarters to people who bring in non-perishable food donations, limit four quarters for four items per person. Donors will be eligible for a drawing for one of several prizes including a U.S. $10.00 Capital National Bank of Lansing Note with the printed signature of

(Continued on page 4)

(Continued from page 3)
Oldsmobile found R. E. Olds as bank president.

In addition to food donations brought to our store, we will also go to schools to give out quarters to students where an entire school participates in the food drive. Resurrection School, where Daniel is a first-grader, is scheduled to be the first school in this program. Its students will be among the very first to obtain a Michigan Quarter on January 26.

To add to our guests enjoyment when the visit Liberty Coins, we will be setting up special exhibits of 1837 coinage and Michigan banknotes (the year that Michigan became a state), a nearly complete set of Lansing, Michigan National Currency, Civil War Tokens issued by Lansing merchants, other Lansing and Michigan financial materials, and memorabilia of the process for creating the Michigan Quarter.

I believe that the Capitol ceremony starts at 10:30, which means that LCS would open at noon on the 26th. More definite details will be posted on our website next week.

In the meantime, at the bottom right of this page are some photos of Daniel and I at the Denver Mint last Thursday. The hospitality there was wonderful. It was one of the peak experiences of my life and for Daniel. For a full report, check out our website: www.libertycoinservice.com.

Daniel prepares to strike coin #15!

Daniel shows off the coin he struck!

The Month

Gold Range	$22.75	5.6%
Net Change	+17.50	
Silver Range	1.13	20.7%
Net Change	+.96	
Gold/Silver Ratio	65.7	
Net change	-8.3	
Platinum Range	86.00	11.1%
Net Change	+81.00	
Platinum/Gold Ratio	2.03	

Date	Gold	Silver	Platinum
Dec 03	404.00	5.46	773.00
Dec 04	403.25	5.46	787.00
Dec 05	406.25	5.47	787.00
Dec 08	406.50	5.54	798.00
Dec 09	407.75	5.63	797.00
Dec 10	406.00	5.60	805.00
Dec 11	404.50	5.58	801.00
Dec 12	409.50	5.62	817.00
Dec 15	409.00	5.63	816.00
Dec 16	407.50	5.62	819.00
Dec 17	412.25	5.69	832.00
Dec 18	410.25	5.71	818.00
Dec 19	409.00	5.71	815.00
Dec 22	410.50	5.70	792.00
Dec 23	411.00	5.73	797.00
Dec 24	412.25	5.77	817.00
Dec 25	closed		
Dec 26	closed		
Dec 29	414.75	5.91	804.00
Dec 30	416.50	5.97	807.00
Dec 31	415.50	5.95	806.00
Jan 01	closed		
Jan 02	415.25	5.97	806.00
Jan 05	423.75	6.22	833.00
Jan 06	422.50	6.31	841.00
Jan 07	422.00	6.25	836.00
Jan 08	423.75	6.26	847.00
Jan 09	426.00	6.47	845.00
Jan 12	426.00	6.59	849.00
Jan 13	423.50	6.58	859.00
Jan 14	421.50	6.42	854.00

London Silver Market Premium To New York Silver Market = 1¢

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

Gold and Gold Coins

Gold closed today at $421.50, up $17.50 (4.3%) from six weeks ago.

The highest gold prices in over 15 years have not brought out much liquidation of physical gold such as we experienced when gold climbed back up over $300 a couple of years ago. That is a strong indication that the "weak hands" investors, whose liquidation helped stall prior gold rallies in the past decade, have largely sold out. Those still holding gold are more likely to be patient waiting for significantly higher prices.

Gold and silver were in stronger demand this past holiday season. In December, as a result, we enjoyed one the largest increases in our mailing list in the any month in the past decade!

Among bullion-priced coins, the U.S. **American Arts Medallion** (3.7%), Austria **100 Corona** (3.4%), and South Africa **Krugerrand** (3.6%) are the ones we recommend to get the most gold for your money. There are also a number of attractively priced smaller European gold coins that have a history at trading at much higher premium levels, including British **Sovereign** (7.6%), French **20 Franc Rooster** (9.0%, and Swiss **20 Francs** (9.0%). We also have a special offer enclosed of **Mint State Prussian 20 Marks.**

With rising gold prices, the prices of both **Common-Date and Better Date U.S. Gold Coins** have been rising. As I expected, MS-63 and higher grade coins are up sharply from last month. Dealers are scrambling to find coins, which in many cases are still selling for less than 30% of their mid-1989 price levels. We were unable to locate any sizeable groups of one coin but can offer our **10 Spectacular U.S. Gold Bargains**, with a variety of desirable Common-Date and Better Dates issues. Please review our flyer for details, and be sure to call about other coins that we simply did not have room to list.

Silver and Silver Coins

Silver settled today at $6,.42, up a whopping 96 cents (17.6%) from last month! This is the largest one month increase in the price of silver since at least 1998, and possibly since the mid-1980s!

Higher spot prices brought down premiums for physical silver. Our top recommendation is still U.S. **90% Silver Coin** (2.4%). It enjoys a price advantage of at least 28 cents per ounce compared to **100-1 Ounce Ingots** (6.7-7.8%). 90% Coin also has greater liquidity and divisibility than the other form.

Like gold coins, collector silver coins are also jumping in price. We have two special opportunities this month, including **High Grade 1940-S Walking Liberty Half Dollars** and **Mint State Rolls of the low mintage 1958 Roosevelt Dime.**

Liberty's Outlook is published monthly by Liberty Coin Service, 300 Frandor Ave., Lansing, MI 48912. Telephone: National 800/527-2375 Fax: 517/351-3466 Internet: www.libertycoinservice.com, E-mail: path@libertycoinservice.com Patrick A. Heller, Editor. Subscriptions $79.00 per year (12 issues). Send subscription orders and changes of address to the above address. All information is derived from sources believed to be reliable, but accuracy cannot be guaranteed. No guarantee of profitability of any investment or recommendation contained herein is made or implied. Liberty Coin Service has been a dealer in rare coins and precious metals since 1971. The publisher, its principals and associates may, from time to time, have a position in items recommended here.