

Liberty's Outlook

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2004—Precious Metals And Rare Coins Outperform Paper Assets!

The year 2004 was mostly profitable for precious metals investors and rare coin collectors. On average, the value of these hard assets appreciated more than U.S. dollar-denominated paper assets.

Certainly, silver, platinum, and gold earned a better return than dollars sitting in savings accounts or CDs.

Better yet, a number of rare coin categories turned in results superior to the increase in bullion prices.

In absolute terms, most U.S. dollar-denominated paper assets fell in 2004 after you factor in the decline of the U.S. dollar against other currencies.

In contrast, silver and many rare coin categories were up even compared to the strong Euro or the Japanese yen. Gold, platinum, and most other rare coin categories came close to breaking even.

Before I give you my reasons why I think precious metals and rare coins will again beat the results for paper assets in 2005, let's review last year's results.

A Look Back At 2004

Perhaps the best word to describe both the American and global economies in 2004 is uncertainty.

A year ago, many optimists were projecting 2004 to be a good year. After all, it was a U.S. presidential election year and "everyone" knows that the politicians would pull out all the stops to boost the economy (and their reelection prospects).

The politicians certainly did try to do a lot to encourage consumption

Results For 2004

<i>Precious Metals</i>			
Silver	+14.5%	Broilers, Dressed "A"	+9.7%
Platinum	+ 6.6%	Beef, choice	+6.7%
Gold	+5.3%	Natural Gas	-0.3%
Palladium	-6.6%	Wool	-3.4%
		Wheat, hard KC	-5.4%
		Corn, #2 yellow	-23.7%
		Soybeans, #1 yellow	-32.8%
<i>Numismatics</i>		<i>US Dollar vs Foreign Currencies</i>	
US MS-65 Morgan Dollar	+47.1%	China Yuan	0.0%
US Proof Silver Eagles, 86-98	+43.5%	Mexico Peso	-0.9%
LCS US Collect Key-Date Coin Idx	+29.6%	Japan Yen	-4.4%
LCS US Invest Blue Chip Coin Idx	+ 14.5%	India Rupee	-5.0%
LCS US Collect Generic Coins Idx	+ 6.9%	Great Britain Pound	-7.0%
LCS US Large Paper Money Index	+ 6.6%	Euro	-7.1%
LCS US Better Date Coins Index	+ 2.8%	Canada Dollar	-7.2%
US Silver Proof Sets, 1950-1964	+ 2.4%	Switzerland Franc	-7.9%
US MS-63 \$20 St Gaudens	- 13.3%		
US MS-63 \$20 Liberty	- 21.1%	<i>US And World Stock Indices</i>	
US Non-silver Proof Sets, 1968-98	- 23.1%	Russell 2000	+17.0%
		NASDAQ	+8.6%
		S&P 500	+8.2%
<i>Commodities</i>		Tokyo Nikkei 225	+7.6%
Copper	+40.7%	London FT 100	+7.5%
Hogs, Sioux Falls	+35.9%	Frankfurt Xetra DAX	+7.3%
Crude Oil, Brent	+25.6%	Dow Jones Industrial Average	+3.1%
Aluminum	+24.0%		

and investment, with new rounds of tax cuts and subsidies. So how much good did it do? Not much actually.

Well, some of the news was good. The Russell 2000 index, which had jumped 45.4% in 2003, tacked on another 17% in 2004. This index is broader based than the better known Dow Jones Industrial Average (DJIA), the Standard & Poors 500 (S&P 500), and the NASDAQ. When it turns in a solid result, that is a good sign for the overall economy.

However, the less sophisticated investors

are much more familiar with the DJIA, S&P 500, and NASDAQ. To many people, the trends in these latter indices are used as a short-hand report card on the U.S. economy.

The well-known indices didn't look so good. The NASDAQ and S&P 500 barely covered the fall in the value of the U.S. dollar. Those who concentrated their investments in the market leading stocks that make up the DJIA actually saw their wealth decline in

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2004.

It seemed like all year long, the public was waiting to hear good economic reports. Reports on unemployment, inflation, trade deficits, and the like were too often negative. Even the good news reports were never positive enough to reassure the investing public that better days lie ahead.

In fact, after the election, more attention was focused on the U.S. Federal budget deficit and the trade deficit. Most of the annual decline of the dollar occurred in the past two months.

The dollar, which had dropped 20% against the Euro in 2003, lost another 7% in 2004. Even with the record-setting levels of Japanese support for the dollar, the dollar fell 4.4% against the yen after the 9.6% drop in 2003.

Before discussing economics in general, let's review how precious metals and rare coins performed in 2004.

Gold: Gold started 2004 at \$415.50, close to a 15-year high. It rose further to \$426.00 on January 9. Then profit-taking knocked prices down into the \$390-410

range until mid-March.

Gold hit a 16-year high at \$427.00 on April 1, then was knocked back down under \$400 within two weeks. On May 14, gold touched its low for the year at \$376.75.

For the next several months, gold traded above and below \$400, not reaching \$420 again until October 8. Gold went on to reach 17-year highs on several days in November before peaking for the year at \$456.00 on December 3.

After pushing through the psychological \$450 barrier, short-term traders teamed with investment houses looking to book year-end profits took gold back down into the \$440s and \$430s. It ended 2004 at \$437.50, at modest 5.3% rise for the year.

The strength of gold prices was underpinned by a dramatic drop in supplies. Gold Fields Mineral Services (GFMS) forecasts global mine production in 2004 to drop 4% from 2003 levels.

In addition to lower production, the mines have used substantial new production to reduce their pre-sold gold positions. In their latest analysis, for instance, GFMS figures that a net 4.6 million ounces of gold production in the third quarter was used to fill pre-sold positions rather than to be sold as new product at current prices.

Not only did the mines reduce net new output by perhaps 20 million ounces in

2004, central bank liquidations and leases fell sharply. The 1999 Washington Agreement on Gold (WAG) expired at the end of September. Under its terms the signatory and coordinating governments, who hold about 85% of the world's official gold reserves, had agreed to sell no more than 12.86 million ounces of gold per year. The agreement was renewed with a higher limit of 16.1 million ounces annually, but GFMS reported that central banks are not even selling enough gold near the end of 2004 to fill the prior lower quota. When the Swiss finish their five year sales program early in 2005, which was the largest government gold liquidation in history, gold supplies will get even tighter.

Silver: Silver generally followed the gold market in 2004, but with greater volatility.

After ending 2003 at \$5.95, silver shot up over \$6.00 on January 5. It topped \$7.00 on March 9, on its way to \$8.20 on April 6, the highest silver price since August 6, 1987.

When short-term profit taking hit the silver market, it really clobbered the price. It fell all the way to \$5.53 on May 11.

At such a low price, buyers jumped

A Six-Year Comparison: Bullion, Numismatics, Foreign Currencies, and U.S. Stock Indices

I predicted that the start of the U.S. Mint Statehood Quarter program in 1999 would bring forth a host of new collectors, with the effect of pushing up the prices of rare coins. I further explained that this development would take years to reach full effect on the numismatic market.

Well, six years have now past since the end of 1998. Although some of the effects of the surge in new collectors are yet to happen, enough time has elapsed that it makes sense to compare how some numismatic sectors have performed against the benchmarks of bullion, foreign currencies, and U.S. stock indices.

Here's how they have changed from the end of 1998 to the end of 2004:

Numismatics

U.S. Proof Silver Eagles, 1986-1998	+192.9%
LCS US Collector Key-Date Coin Index	+132.3%
Silver Proof Sets, 1950-1964	+101.2%
LCS US Collector Generic Coins Index	+39.7%
MS-65 Morgan Dollar, Common Date	+38.9%
LCS US Large Paper Money Index	+35.2%*
LCS US Investor Blue Chip Coin Index	+22.7%
LCS US Investor Better Date Coins Index	+15.0%
U.S. Non-silver Proof Sets, 1968-1998	+14.6%
MS-63 \$20.00 Liberty, Common Date	+13.6%
MS-63 \$20.00 St Gaudens, Common Date	+11.1%

Bullion

Platinum	+134.1%
Gold	+51.5%
Silver	+35.9%
Palladium	-45.6%

U.S. Dollar versus Foreign Currencies

Mexico Peso	+12.5%
India Rupee	+1.7%
China Yuan	0.0%
Japan Yen	-9.4%
Great Britain Pound	-13.3%
Euro	-13.5%
Switzerland Franc	-17.0%
Australia Dollar	-21.8%
Canada Dollar	-22.0%

U.S. Stock Indices

Russell 2000	+54.4%
Dow Jones Industrial Average	+17.4%
NASDAQ	-0.8%
S&P 500	-2.1%

*Comparison is for December 2004 versus August 1998

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in to the market. Silver climbed back over \$6.00 on May 25, then seesawed above and below that level until early July.

As the summer progressed and gave way to autumn, silver's price gradually climbed, reaching \$7.00 again on October 5. With a couple temporary dips below \$7.00, silver steadily rose to top \$8.00 again on December 1.

Like gold, silver was hit by profit-taking, declining about 10% on December 7 alone. Silver spot on December 31 was \$6.81, up a solid 14.5% for the year.

There is a developing silver inventory squeeze, evidenced by the rising premium of the London silver price above that in New York. It is not yet on the scale of the market squeeze wrought by mega-billionaire investor guru Warren Buffett in 1998. But this could portend silver's next major price rise.

Platinum: After starting the year at an already strong \$806.00, platinum stayed in the high \$700s to low \$900s all year long.

Prices reached \$900 on March 10, then touched its 24-year peak at \$927.00 on April 12.

Along with gold and silver, prices fell thereafter, until platinum hit its low for the year at \$768.00 on May 10. Platinum finished 2004 at \$859.00

Platinum supplies nearly equaled demand in 2004, after a few years of significant supply shortages.

The high price of platinum has spurred production and inhibited demand. Because of this, the physical platinum market will likely again yield a surplus in 2005 and future years.

Palladium: From a close at the end of 2003 at \$198, palladium spent a good part of 2004 in the low \$200s before finishing the year at \$185.00.

The high prices of a few years ago have spurred a major increase in mine production in South Africa and elsewhere. New supplies are running 15-20% higher than demand, a trend that should continue for several years.

Rare Coins: The rare coin market does not function as a unified whole. So let me discuss some parts of it.

After they spent years in the doldrums, wholesalers managed to push up the price of MS-65 Morgan dollars more than 47% in 2004. The whole-

salers were trying to acquire stock for mass market promotions, a source of demand that has been largely absent for most of the past decade.

U.S. Proof Silver Eagle dollars were up over 43% in part because of a continuing fad among novice coin buyers looking for specimens that have been graded by the grading services. As you can see in the table at the bottom of the previous page, these coins have almost tripled in price in the past six years. These coins have such high mintages that I think they may not be able to sustain such lofty levels. If they do hold at current prices, I don't expect them to appreciate in step with other rare coins.

The most significant news was the soaring prices for key-date collector coins, up almost 30% for 2004. These are the scarce dates in a coin series in the typical grades sought by collectors (as opposed to focusing on high quality). For instance, among the coins in the LCS index are the 1877 Indian Cent, 1885 Liberty Nickel, and 1916-D Mercury Dime in Good condition.

None of the coins in the index are in Mint State or Proof condition; In fact, only one coin grades higher than Very Fine—the 1928 Peace Dollar in About Uncirculated. While some such coins appear to be pricey at today's levels, these are also the coins that will be in high demand from the growing collector base.

By the way, a few months ago, I discussed how our two Investor Coin Indices were possibly understating price increases as the market had shifted away from trading certified coins on a sight-unseen basis to a sight-seen basis. As a partial test of this thesis, I recalculated the annual change using reported sight-seen wholesale bids rather than the sight-unseen bids on which these indices are based. For the Investor Blue Chip Index, the sight-basis coins increased 14.2% in 2004, versus 14.5% for the unseen coins. For the Better Date coins, the sight-basis increase was 5.8% versus only 2.8% for unseen coins. This analysis does not take into account the shift in dealer trading, where more coins are now trading at premiums to these quoted bids than they were in the past. As a result, I believe my revised analysis still understates the appreciation of both indices.

In general, the rare coin market in 2004 was the strongest in well over a decade.

At any time, there will be laggards in the rare coin market. The MS-63 Double Eagles dropped in 2004, partly because prices were high at the end of 2003 because of promotions. The non-silver U.S. proof sets had jumped 52% from the end of 1998 to the end of 2003. As the number of newer collectors filled up on these relatively inexpensive sets, demand finally dropped off this past year. Many of the lower-priced years such as 1972, 1974, 1977, 1981, 1982, 1983, 1985, 1987, and 1992 are such relative bargains today that we are stockpiling our excess acquisitions of them here at LCS.

In general, the rare coin market for 2005 looks poised to tack on even more impressive gains than we have seen in the past two years. If pending legislation to allow Individual Retirement Accounts to own certified rare coins is enacted in 2005, that would be a spark to the market (though I do not recommend owning rare coins or bullion in an IRA).

I will discuss the rare coin market in more detail in the coming months.

Outlook for 2005

A multitude of economic uncertainties weigh heavily on investors' minds. Several are so significant that any one of them might bring serious widespread financial calamity, which would hurt paper assets and tend to increase demand for hard assets.

Just as one example—the housing market could stall in the U.S. and possibly even start to drop. Housing prices in the U.S. have jumped much higher than average as measured by the ability of people to afford to own them. The unfolding scandal at Fannie Mae, a government-backed mortgage agency, could be the shock that halts the boom.

Without going into all the details, the size of problems at Fannie Mae appear to be in the \$3-9 billion range. The CEO who oversaw the problems was recently induced to resign with a generous \$60+ million severance package. If Fannie Mae has to tighten standards to grant future mortgage financing, that may be enough to bring on falling housing prices. With the relatively high percentage of highly leveraged homes, there could be a quick increase in the

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number of foreclosures and bankruptcies that could have a cascading effect in other sectors of the economy.

If the Fannie Mae scandal doesn't mushroom, other factors like rising interest rates could hurt housing.

If the housing market doesn't rattle the economy in 2005, there are other worries like rising inflation, further declines in the U.S. dollar (an article in the January 10, 2005 issue of *Forbes* reports on Warren Buffett's investment of \$20 billion in Euros, the British Pound, and six other foreign currencies, anticipating a profit on the dollar's continued decline), the war in Iraq, the huge Federal budget deficit, the huge foreign trade deficit, ad nauseum.

If somehow none of these cause calamity in the economy in 2005, you still have the long-term supply shortages in the gold and silver markets that will not go away anytime soon.

Simply trying to be rational and not a sensationalist, I think that there is still a good chance that gold will reach \$500 by the end of February and think it is about 50-50 that gold could reach \$600 by the end of 2005.

For silver, I think \$10 by the end of February is a possibility, though less likely than gold hitting \$500 by then. If silver reaches \$10 by the end of March, I give at least a 50% chance that it could reach \$20 by the end of 2005.

As we saw in the 1979-1980 boom, physical metals outperformed mining company stocks in a raging bull market.

Maybe the world's economies will get lucky and avoid serious problems in 2005. But I am not counting on it. In the 1997 Southeast Asia currency crisis, those who owned gold were able to maintain or elevate their standard of living while those who depended on the governments' promises to support their currency were often wiped out.

It is up to you to protect yourself with hard assets. We can help. Call us.

Gold and Gold Coins

Gold finished today at 426.50, down \$29.50 (6.5%) from last month.

In the past few months, there has been so much demand for physical gold bullion that the U.S. Mint ran out of **1 Oz**

The Month

Gold Range \$29.50 6.5%
Net Change -29.50

Silver Range 1.58 19.7%
Net Change -1.51

Gold/Silver Ratio 65.5
Net change +8.9

Platinum Range 66.00 7.5%
Net Change -27.00

Platinum/Gold Ratio 1.99

Date	Gold	Silver	Platinum
Dec 01	454.00	8.02	877.00
Dec 02	450.25	7.91	882.00
Dec 03	456.00	7.99	871.00

Dec 06	454.00	7.92	874.00
Dec 07	452.00	7.83	867.00
Dec 08	437.50	7.10	831.00
Dec 09	435.50	6.76	816.00
Dec 10	434.00	6.70	827.00

Dec 13	439.00	6.80	828.00
Dec 14	435.75	6.72	829.00
Dec 15	440.00	6.84	840.00
Dec 16	437.00	6.70	837.00
Dec 17	441.25	6.77	836.00

Dec 20	442.25	6.83	841.00
Dec 21	441.50	6.89	840.00
Dec 22	440.00	6.80	842.00
Dec 23	441.50	6.88	839.00
Dec 24	closed		

Dec 27	444.75	6.97	871.00
Dec 28	444.00	7.02	871.00
Dec 29	436.00	6.80	861.00
Dec 30	437.50	6.81	861.00
Dec 31	437.50	6.81	859.00

Jan 03	428.75	6.49	851.00
Jan 04	428.50	6.44	841.00
Jan 05	426.50	6.51	850.00

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

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

American Eagles (5.9%). With a gap before the Mint released the 2005 issues this week, premiums rose. I don't necessarily recommend these higher premium coins, but if you want to buy them, wait until premiums drop closer to 5%.

Even though today's gold price is relatively close to its highest price of the past 17 years, I consider it to be a buying opportunity with the recent price dip. I would be more enthusiastic except that I am even more excited about what I consider the su-

per bargain price of silver now.

The low premium buys are Austria **100 Corona** (3.5%), South Africa **Kruger-Rand** (3.7%), and U.S. **American Arts Medallions** (3.7%). Among smaller coins, the British **Sovereign** (7.6%), French **20 Franc Rooster** (8.9%), and Swiss **20 Francs** (8.9%) are some of the best buys.

With falling gold prices this past month, **Common-Date U.S. Gold Coins** headed in two directions. Most of the Double Eagle prices have fallen as much or more than the fall in gold spot, while the smaller coins have held their ground or even increased in price! I love the appreciation potential of many of the high-grade (MS-63 or higher) U.S. Gold Coins from \$1.00 to \$10.00. But I like the prospects for **Better-Date U.S. Gold Coins** even more. We have a handful of nice pieces to consider in our list of **Hot U.S. Coin Bargains**.

Our British gold offerings in the past few months have quickly sold out. This month we are pleased to offer a modest group of **Gem Proof-65+ 1984 British Gold Five Pounds** at a price that puts our competition to shame. See the enclosed flyers.

Silver and Silver Coins

Silver closed today at 6.51, a huge \$1.51 (18.8%) drop from five weeks ago, whopping 88 cents (12.3%) in the last month!

To me, this is an obvious bonus buying opportunity. In the emerging bull market we are in, there will be periodic retrenchments in silver and gold prices. The way you can identify generally rising markets even when priced drop temporarily is that the new low is higher than the previous low, as we are now seeing. If you wanted to add to your silver holdings, do it now!

Lower spot prices have pushed up the premium on U.S. **90% Silver Coin** (3.6%). Still, it is the low premium form we most recommend.

Demand for all kinds of numismatic silver coins is so strong that we have great difficulty finding bargains for you. Still, there are some lovely silver coins in our **Hot U.S. Coin Bargains**. Please see our offer.