Liberty's Outlook

Volume 12 Issue 1 Liberty Coin Service's Monthly Review of Precious Metals and Numismatics January 4, 2006

Gold Soars Past $500—Hits 25 Year High! Silver Passes $9—An 18 Year High! Platinum Over $1,000—A 25 Year High!

- **Russian Central Bank Reveals 12 Million Ounce Gold Shortage!**
- **Will The U.S. Dollar Start To Crash In March?**
- **Is There Another Mega-Billionaire Buying Silver?**

Special note: Normally the first issue of the year is devoted to reviewing the year just finished. While I have included the comparative chart to the right, cover some details in the following discussion, and include my predictions for 2006, there is so much important breaking news that there simply isn't room for this review this month. News events permitting, I will review the precious metals and rare coins markets of 2005 next month.

Results For 2005

Precious Metals	
Palladium	+41.1%
Silver	+29.5%
Gold	+18.3%
Platinum	+13.2%
Numismatics	
US MS-63 $20 Liberty	+33.3%
US MS-63 $20 St Gaudens	+23.1%
LCS US Collect Key-Date Coin Idx	+11.7%
LCS US Collect Generic Coins Idx	+10.6%
LCS US Invest Better Date Coins Idx	+5.4%
LCS US Invest Blue Chip Coins Idx	+5.3%
US Non-silver Proof Sets, 1968-98	+2.1%
US MS-65 Morgan Dollar	0.0%
US Silver Proof Sets, 1950-1964	-1.1%
US Proof Silver Eagles, 86-98	-7.7%

US Dollar vs Foreign Currencies	
Switzerland Franc	+15.2%
Japan Yen	+15.2%
Euro	+14.6%
Great Britain Pound	+11.5%
Australia Dollar	+6.7%
India Rupee	+4.1%
China Yuan	-2.5%
Canada Dollar	-3.1%
Mexico Peso	-4.6%
US And World Stock Indices	
Tokyo Nikkei	+40.2%
Frankfurt Xetra DAX	+27.1%
London FT 100	+16.7%
S&P 500	+3.8%
Russell 2000	+3.3%
NASDAQ	+1.4%
Dow Jones Industrials	-0.6%

Within 24 hours of finishing last months newsletter, gold broke over $500 for the first time since 1983. It has since reached its highest level since sometime in 1981.

For several years, researchers affiliated with the Gold Anti-Trust Action Committee (GATA) have contended that central banks have flooded physical gold onto the market to help suppress gold prices. They figure that as much as 48 million ounces of central bank gold are being surreptitiously leaked onto the market every year to help hold down prices.

The International Monetary Fund (IMF) has helped hide such moves. Central banks and other governmental organizations that lease gold are required by the IMF to report this gold as still being in their vaults—even though the IMF publicly claims that it does not have such reporting requirements.

What finally blew the lid off the gold price at the beginning of December was the Russian central bank admitting that the 500 tons (16.1 million ounces) of gold it had reported as being held in its vaults in compliance with IMF requirements actually was only 123 tons (3.95 million ounces) in vaults and 377 tons (12.1 million ounces) that had secretly been leased out.

With the Russian central bank having recently announced plans to increase their gold reserves to more than 32 million ounces, a plan endorsed by Russian leader Putin, you can draw some inferences.

First, it is likely that the Russian central bank will likely not renew many of their gold leases as they mature. This will quickly add to rising gold demand at the same time that it reduces apparent supply.

Second, other central banks may be forced to call in their gold leases to shore up the strength of the nations' currencies, adding more to gold demand and further reducing supplies.

I have it on good information that the current largest buyer of physical gold is the Chinese central bank. I also have indications, not yet corroborated, that the second and third largest buyers of gold are the South Korea and Taiwan central banks.

If these three central banks are now purchasing huge quantities of physical gold, they could also force other central banks to buy gold for self-preservation.

For years, central bankers, politicians, and government bureaucrats have preached the doctrine that gold is a barbarous relic and that modern financial instruments are sufficient to manage the global economy.

Oh yeah?

Just ask Alan Greenspan, chairman of the Federal Reserve and the world's most influential central banker. U.S. Congressman Ron Paul did just that when Greenspan appeared to testify before the House Banking Committee on November 3,

Inside this issue:

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2005.. Paul asked Greenspan why the US and the IMF didn't just sell all of their gold if it had not use.

In response, Greenspan said, "in times of extreme economic crisis gold has been the only means to settle accounts."

There, the cat is out of the bag. National currencies can (and many have) become worthless as a means of making payment. In extreme circumstances, a central bank or government better have some gold on hand or risk collapse!

Gold and silver rose steadily in early December. Then, as I alerted readers last month to expect, prices retreated somewhat in conjunction with the Federal Reserve Open Market Committee raising interest rates on December 13—the same pattern as has pretty consistently occurred for the last dozen of these meetings.

There is evidence of attempts to manipulate downward gold and silver prices at the time of the Fed meetings.

On December 12, the price of silver was soaring, hitting $9.30 during U.S. trading hours. Right at that point, a large quantity of options were sold to deliver silver at $8.00, $8.10, and $8.20 per ounce. Although anyone purchasing such options would have to effectively pay the current price (with the $8.00 option costing about $1.30 per ounce cash up front to purchase—$8.00 + $1.30 = $9.30) for silver, the effect of all these low-priced sell options coming onto the market gives the appearance that there is a great deal of silver available without having to produce a single ounce of physical silver.

Yes, the price of silver did drop, but only as low as $8.31 on December 20, which was still higher than silver reached from late 1987 through the end of November 2005!

In the two weeks since, the price of silver has shot up 9.5% to close at $9.10, its highest level since May 20, 1987!

Gold followed a similar pattern. After trading above $530 during the day on December 12, it declined all the way to close at $493.00 on December 21. In the two weeks since, gold has risen 8.3% to close today at $534.00, its highest level in 25 years!

After closing in on $1,000 for the first time since 1980, platinum settled on December 12 at $1,008. It declined by a smaller percentage than gold or silver, then recovered to close at $993.00 today.

There are lots or reasons why the prices of gold and silver should rise in the long run—long term fundamental supply shortages, rising inflation, an overheated global real estate market that shows major signs of cooling off, international terrorism, and so forth. In my judgment, the pressure is there for prices to rise over time.

Now we have new information that the central banks may have been deceiving the public about how little gold they really had in their vaults. That could easily lead to a gold buying frenzy that would dwarf the results of the last four years where gold and silver have more than doubled in price.

There is still no news on whether the Securities and Exchange Commission will approve Barclay Bank's application to establish an exchange-traded fund (ETF) for silver, which would be expected to immediately remove 130 million ounces of physical silver from the market. Even if this particular investment vehicle is not approved, it seems likely that a similar fund will be set up in another country with the same effect of magnifying shortages.

Now that the Silver User's Association has stopped claiming that there is plenty of silver available and now says that supplies are so tight that the Barclay's ETF would cause soaring silver prices if it went into operation, watch out.

Silver is a much thinner market than gold. All annual worldwide silver supplies are worth less than $8 billion, even at today's higher levels.

One rumor I heard (and I must emphasize that I have not been able to corroborate this information) is that mega-billionaire Paul Allen (who made his fortune as a co-founder of Microsoft) has purchased 120 million ounces of silver contracts and that he is planning to take delivery instead of rolling over the contracts. This could cause the same supply squeeze that occurred in early 1998 when Warren Buffett's Berkshire Hathaway did the same thing by purchasing 129.7 million ounces of silver contracts—then calling for delivery.

It really doesn't matter whether this rumor about Paul Allen is true. The point is that there are a number of wealthy individuals who have the financial ability to cause soaring silver prices all by themselves—at any time.

Next there is the follow up on my discussion last month on the Fed's announcement to discontinue reporting the M3 money supply in March 2006.

A friend reminded me that the date of discontinuing this report may not be a coincidence. Within 3 days of the Fed ending the release of this data, Iran will commence operation of its petroleum exchange where buyers of oil will not be allowed to pay in U.S. dollars. Instead, buyers will have to pay with Euros.

The way this exchange is being structured it is pretty obvious that it is meant to hurt the international value of the U.S. dollar. To the extent that nations around the world have to unload a portion of their U.S. dollar reserves in order to obtain Euros to purchase oil, there is a strong likelihood that the value of the U.S. dollar could drop—maybe even by a lot.

The U.S. dollar has been strong in the past year (see the chart on page 1). At least some of this strength has come from the relatively high interest rates paid to foreigners to hold U.S. government debt. If foreigners start to worry that the U.S. dollar may fall 10-20% in the near term, that could lead them to unload hundreds of billions—sending it right back to the U.S. This would likely have a huge inflationary impact on the U.S, but it wouldn't be reported because it would show up mostly in the M3 definition of money.

Last September, when Venezuela tried to punish the U.S. by dumping its $20 billion of reserves held in U.S. dollars, the M3 money supply reports immediately showed this surge.

So, it just might be possible that the bureaucrats are eliminating a signal that would warn of higher inflation. Coincidence? I leave that for you to judge.

Putting all these new factors into the mix—the possibility of major gold buying by central banks, the risk of the U.S. dollar dropping significantly starting in March, and the possibility that a silver supply squeeze could happen at almost any instant, I am ready to stick my neck out with my predictions for 2006.

Will 2006 Be A Repeat Of the 1979-1980 Bullion Boom?

The quick answer to that question is that there is a very good chance that precious metals markets could soar in 2006. Even if they do not, the groundwork has been laid for significantly higher prices.

I am even more optimistic for higher gold and silver prices than I was a month ago.

Although markets do not move in a straight line, and you will see sell-offs even in major booms, I think the trends of rising gold and silver prices over the past few months.will continue, if not accelerate.

By the end of March 2006, I think we face a 75% chance that gold will top $600 and a 50% chance it will pass $700. If gold gets to $700, there will be a lot of unsettling economic news, and gold could really take off. It could reach $1,000 by year end and maybe even before the end of June.

If gold makes it to $1,000, I expect the U.S. government to step in to try to freeze prices before gold makes it to $2,000. Unfortunately for the U.S. government there is very little privately held gold in this country because it was largely illegal

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to own from 1933 to 1974. Prices will rise in other countries as foreigners dump their dollars and dollar-denominated debt for whatever they can get.

In a nutshell—I expect gold to reach $600 by the end of March. If it reaches $700 by then, I expect gold to reach $1,000 by the end of 2006.

As for silver, I expect it to pass $10 before the end of February. If the Barclay's ETF is approved, I would expect silver to reach $15 within the following month, and at least to $20 by the end of 2006. Even $30-$50 silver is not out of the question.

If the Barclay's ETF is disapproved, I still expect silver to pass $12 by year end.

Platinum has already enjoyed a good run. I expect it to pass its all-time high of around $1,040 in 1980, but I don't expect it to have anywhere near the same percentage increase as for gold or silver.

Palladium had a resurgence in 2005 for its potential use as a substitute for the far more expensive platinum. Palladium could enjoy a higher percentage increase than platinum, but it is an extremely thin market with wide buy/sell spreads. Because it is so treacherous, I cannot recommend it in a conservative, wealth-preservation portfolio.

If gold and silver start really taking off in price, I shudder to think what that will do to the value of U.S. dollars and U.S. dollar-denominated paper assets.

Many rare coins will outperform the anticipated rises in the price of gold or silver, even ignoring the effects of the recently passed legislation for changes in our coinage (see below).

P.S. In my most pessimistic moments, I give less than a 10% chance that gold and silver prices will end 2006 at or below current levels. If they do happen to drop, I don't think they will be down more than 15%.

<u>Summary</u>: I don't think you have much time left to acquire gold and silver at current levels. Even though you might think you missed the boat because you didn't buy a year ago, I believe we are still in the early stages of the next major bullion boom. Enjoy the ride.

Major U.S. Coinage Changes Coming Soon

Several months ago, I previewed pending legislation for changes in U.S. coinage.

The legislation, with modifications, passed Congress and was signed into law by President George W. Bush on December 22. It is now Public Law 109-145. It was signed at the same time as Public Law 109-146 which calls for a commemorative silver dollar for the golden anniversary of the end of public school segregation in Little Rock, Arkansas.

The new law brings several changes to U.S. coinage, including design elements on the edge of several coins, which I list in roughly chronological order:

- By the end of June 2006, the U.S. Mint is to begin issuing a 1 Ounce .9999 fine $50.00 gold bullion coin with virtually an identical design to the original 1913 Indian Head or "Buffalo" Nickel. The Mint is required to strike these coins only from gold obtained from natural deposits within the United States and must be used within one year or when it was mined. These coins will be sold with a protective covering to prevent damage from handling the soft pure gold coins.
- Beginning in 2007, the U.S. Mint will issue a series of circulating U.S. President Dollars. They will be issued at the rate of four coins per year, in chronological order of holding office. Grover Cleveland, who served two non-consecutive terms, will appear twice on coins issued in 2012. Past presidents must be dead at least two years before they would be allowed to appear on a coin. The earliest that any currently living presidents—Ford and Carter—could appear on a coin is in 2016, assuming that they died by 2014. In a major change of coin design, the edges of the coins will have incuse inscriptions of the year of issue, E PLURIBUS UNUM and IN GOD WE TRUST! Further, since an image of the Statue of Liberty will appear on the reverse of each coin, the word LIBERTY will not appear anywhere on the coin, only the fourth exception to this requirement contained in a 1792 law and the first since 1883.
- In conjunction with the Presidential dollar coins, the Mint will be required to strike Sacagawea dollars in the amount equal to at least one-third of the mintage of the presidential coins struck each year.
- At the same time that each Presidential dollar is issued, the Mint will issue a $10.00 non-circulating half ounce .9999 fine gold coin honoring the corresponding First Lady. The obverse of the coin will have the name and portrait of the first spouse, the dates of the president's service, and the presidents' order of service. The reverse is to have images reflective of the life and work of the first spouse, the $10 denomination, and UNITED STATES OF AMERICA.
- The U.S. Mint is to issue four different Lincoln cents into circulation in 2009, one each quarter, to honor the Bicentennial of Lincoln's birth and the Centennial of the Lincoln cent. While the obverse will be unchanged, there will be a sequence of four reverses honoring the major periods of Lincoln's life: his birth and early childhood in Kentucky, his formative years in Indiana, his professional life in Illinois, and his presidency in Washington, DC. Also in 2009, the mint will be required to produced a collector version of the 2009 Lincoln cent containing the identical alloy of 95% copper and 5% zinc and tin as used in the 1909 issues.
- In 2010 and beyond, the reverse of the Lincoln cent will be changed to a design "emblematic of President Abraham Lincoln's preservation of the United States as a single and united country."

The introduction of these new coins will have several ramifications to bullion investors and rare coin collectors. Here's what I expect to happen:

1) Since pure gold bullion coins have proven far more popular around the world than alloyed coins such as the American Eagles, I would expect an expansion of the Buffalo series to include smaller gold coins of half, quarter, and tenth ounce size.

2) Within a few years, I think the Mint will stop producing American Eagle gold bullion coins, though they may continue striking Proof issues. If this happens, I expect premiums for gold American Eagles to drop significantly as happened with the Austria 100 Coronas, Mexico 50 Pesos, and South Africa Krugerrands.

3) The Presidential Dollar coins will spark increased collector interest in past U.S. dollar series. I expect prices of Mint State Morgan and Peace dollars to soar. This will likely start happening by the second half of 2006. as smart collectors try to beat the rush.

4) Along with the other changes, I expect another spark of interest in coin collecting like we saw from the introduction of the State Quarter series in 1999 and the Sacagawea dollars in 2000.

5) The Mint will be striking so many Sacagawea dollars that they will have to resume issuing them into circulation, which has not been done since 2001.

6) The U.S. Treasury will finally join other countries and discontinue the issue of $1.00 notes by around 2015.

7) Last, I predict that the Mint will cease striking the one cent denomination sometime around 2015.

Gold bullion and rare coins should be

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very interesting, providing substantial profit opportunities to those who make their acquisitions ahead of the crowd.

Gold and Gold Coins

Gold closed today at $534.00, up a huge $39.50 (8.0%) in the last five weeks!

The best low-premium buys are still the Austria **100 Corona** (3.4%) and U.S. **American Arts Medallion** (3.6%). Strong demand for the South Africa **Krugerrand** (3.9%) has kept premiums higher than they have been for most of the past few years.

The British **Sovereign** (7.6%) is a low-cost favorite among smaller gold coins.

The rising market for **Common-Date U.S. Gold Coins** took something of a breather when gold prices dipped in mid-December. Prices are still well below all-time highs, so I expect significant increases in 2006. The $1.00, $2.50, $5.00 and $10.00 denominations generally look like better values than the $20.00s. We were fortunate to acquire a huge collection of U.S. Gold Coins that were acquired in the 1930s. We saved the best coins for you—see our enclosed offering.

Silver and Silver Coins

Silver closed today at $9.10, an increase of 82 cents (9.9%) from last month. In the past two months, silver has jumped more than 20%.

Higher prices still have not brought out a roaring surge of silver liquidation like we saw when silver jumped over $7.00 in early 1998. To us, that is a sign that most investors are waiting for much higher prices in the near future.

Still, enough U.S. **90% Silver Coin** (1.4%) is being sold relative to demand, that its premium declined in the past month. It is now selling close enough to silver value that refiners can profitably melt down the coins and recycle them. That would tend to increase the supply of physical silver.

A factor contradicting that indicator is that the London silver price is now at a 5 cent premium to New York prices, and was as high as an 8 cent premium in the past week. The world's largest silver market is in London, but it only accepts 1,000 ounce ingots purified to .9999 standards. The New York Comex only requires .999 fine silver, so its bars are not transferable to London without first covering the costs to refine them to the higher standard, then shipping them across the Atlantic.

The rising London silver premium tells me that silver prices will be rising in the short term.

I do not recommend purchasing silver in high premium forms such as U.S. **Silver Eagle Dollars** (21.4%) and Canada **Silver Maple Leafs** (22.0%) As we saw in 1998, their premiums completely collapsed when silver prices rose sharply in a short period of time.

I expect demand for **Common and Better Date Mint State Morgan and Peace Silver Dollars** to rise by the middle of 2006. If you can find solid coins now, buy them.

The Month

Gold Range	$41.00	8.3%
Net Change	+39.50	
Silver Range	.82	9.9%
Net Change	+.82	
Gold/Silver Ratio	58.7	
Net change	-1.0	
Platinum Range	56.00	5.8%
Net Change	+21.00	
Platinum/Gold Ratio	1.86	

Date	Gold	Silver	Platinum
Nov 30	494.50	8.28	972.00
Dec 01	502.25	8.50	986.00
Dec 02	503.25	8.54	999.00
Dec 05	508.50	8.63	995.00
Dec 06	510.00	8.69	984.00
Dec 07	514.00	8.78	988.00
Dec 08	519.25	8.88	999.00
Dec 09	527.00	9.00	999.00
Dec 12	528.50	8.79	1,008.00
Dec 13	521.50	8.50	985.00
Dec 14	506.50	8.38	958.00
Dec 15	503.50	8.54	952.00
Dec 16	503.50	8.52	953.00
Dec 19	503.50	8.55	969.00
Dec 20	494.50	8.31	952.00
Dec 21	493.00	8.35	948.00
Dec 22	502.75	8.49	957.00
Dec 23	503.00	8.56	958.00
Dec 26	closed		
Dec 27	508.50	8.70	961.00
Dec 28	514.50	8.86	965.00
Dec 29	515.75	8.80	958.00
Dec 30	517.50	8.82	972.00
Jan 02	closed		
Jan 03	530.50	9.08	971.00
Jan 04	534.00	9.10	993.00

London Silver Market Premium To New York Silver Market = 5¢

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

LCS Founder R. W. "Bill" Bradford, RIP

With sadness, we report the death December 8 of LCS founder R.W. "Bill" Bradford from kidney cancer. He was 58.

Bill founded Liberty Coin Service in 1971, then retired from active coin dealing after the 1980 bullion boom. He and his wife remained part owners of the company until the end of 1994.

Bill was a fierce competitor, building LCS into one of the largest coin dealerships in Michigan. He showed excellent judgment in hiring employees when he first hired Allan Beegle in 1972 (now LCS's Chief Numismatist), then later Paul Manderscheid (now LCS's Inventory Manager). He was a mentor to all of us in a variety of ways.

By using customer-oriented practices and sound principles instilled in us by Bill, LCS has continued to grow over the years and has been Michigan's largest coin dealership for many years. We intend to continue this legacy for a long time to come.

Bill used the profits from Liberty Coin Service to begin publication of *Liberty* magazine in 1987. *Liberty* provided a forum for all factions within the libertarian movement. In its pages, Bill put everyone and everything to task, even his friends and those efforts he supported. Typically, journals of political thought need huge amounts of donations to survive. Bill was especially proud that he was able to operate his magazine so that it covered all of its expenses except for paying any compensation to Bill or his wife Kathy.

As a memorial, Bill requested that we announce that, "Bradford dies. Liberty survives."

As we grow older, death confronts us more and more. On January 25, 2005, LCS customer service employee Charles Tassinare lost his brother Bruce. On July 4, LCS customer service, website attendant, and jewelry specialist Janet Gates lost her husband Charlie. On Christmas Eve, Gary Ball died. He was the husband of former customer service employee Nancy Ball, father of LCS corporate secretary Pamela Heller, and my father-in-law.

While it is a lot of fun to deal in numismatics and get paid for it, you never forget that it is a means to help you enjoy being with your family. We will treasure in our memories those we have lost.

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