Liberty's Outlook

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Now Is The Time To Buy Gold And Silver!

December 14: U.S. Treasury Bans The Melting Of Cents And Nickels!

Special Urgent Action Issue!

It doesn't matter that the price of silver has more than tripled and the price of gold is up almost two and one-half times over the past several years.

I believe that the major move upward for both metals has yet to happen.

There is a significant possibility that it could happen in 2007.

If it doesn't, that just means that we are facing the prospect of an even larger jump in 2008 or soon after that.

Since it is not possible to know when prices may take off, I think the prudent step to take is to

Buy gold and silver now!

In reviewing my predictions over the past decade, I see that I tend to be a bit premature in my expectations for higher prices. I may have been off in timing, but not in the direction that the market was headed.

I am much more comfortable being six months early than risking a chance of being one day too late.

Before I go further about the state of the market today, let's look back at what happened in 2006 and how my predictions for the year fared.

2006 Results

Precious Metals	
Silver	+45.5%
Palladium	+28.0%
Gold	+22.7%
Platinum	+16.3%
Numismatics	
US Large Size Currency Index	+19.6%
LCS US Collect Key-Date Coin Idx	+9.0%
MS-63 $20 St Gaudens	+6.25%
US Non-silver Proof Sets 1968-98	+4.4%
LCS US Collect Generic Coins Idx	+3.0%
MS-63 $20 Liberty	+2.5%
LCS US Invest Better Date Coins Idx	+1.3%
MS-65 Morgan Dollar	0.0%
US Silver Proof Sets 1950-1964	-0.7%
LCS US Invest Blue Chip Coins Idx	-1.6%
US Proof Silver Eagles 1986-98	-16.2%
Commodities	
Nickel	+148.3%
Zinc	+131.9%
Corn, #2 yellow	+86.7%
Copper	+33.1%
Aluminum	+20.3%
Wheat, Hard KC	+18.1%
Soybeans, #1 yellow	+11.9%
Hogs, Sioux Falls	+1.1%
Crude Oil, West Texas Inter C	+0.4%
Broilers, Dressed "A"	-0.7%
Beef, choice	-9.8%
Natural gas	-44.6%

US Dollar vs Foreign Currencies	
Thailand Baht	-13.5%
Great Britain Pound	-12.1%
Euro	-10.3%
Brazil Real	-8.5%
Indonesia Rupiah	-8.3%
South Korea Won	-7.9%
Singapore Dollar	-7.8%
Philippines Peso	-7.3%
Switzerland Franc	-7.2%
Australia Dollar	-7.1%
Peru Soles	-6.7%
Malaysia Ringitt	-6.6%
China Yuan	-3.3%
New Zealand Dollar	-2.8%
India Rupee	-2.1%
Taiwan Dollar	-0.7%
Canada Dollar	+0.3%
Hong Kong Dollar	+0.3%
Japan Yen	+0.9%
Mexico Peso	+1.6%
Chile Peso	+3.5%
South Africa Rand	+10.5%
US And World Stock Market Indices	
Frankfurt Xetra DAX	+22.0%
Russell 2000	+17.0%
Dow Jones Industrial Avg	+16.3%
S&P 500	+13.6%
London FT 100	+10.7%
NASDAQ	+9.5%
Nikkei 225	+6.9%

A Look Back At 2006

Last year, paper assets were relative laggards, while the U.S. dollar and real estate markets stumbled.

Precious metals and several other metals soared!

Just look at the table at how the U.S. stock market indices performed in 2006, as measured in U.S. dollars. If you subtract 12% by which the dollars fell against the British pound or 10% that the dollar slid versus the euro, the results don't look so healthy!

On the other hand, even if you adjust for the decline in the dollar, silver roared and gold more than held its own. Platinum hit an all-time high, if you ignore inflation.

The prices of nickel, zinc, and copper jumped so high that the U.S. Treasury adopted emergency regulations on December 14 to ban the melting of nickels (which are made of copper and nickel) and cents (which formerly were made from almost pure copper and, since 1982, zinc and copper).

The numismatic markets took a relative breather, although you have to put it in context. For example, the 1986-1998 Proof Silver Eagles continued their retrenchment (which we advised our readers had jumped too far, too quickly) after tripling in price since the debut of the U.S. State Quarter series at the beginning of 1999. Even with the decline in 2006, prices are still almost 150% higher than they were eight years ago!

Here's some additional specific details:

Gold: After ending 2005 at $517.50, its highest price in 25 years, prices kept right on rising for the first four and one-half

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months of 2006.

A year ago, I predicted that gold had a 75% chance of topping $600 by the end of March. I was off; gold didn't pass that level until April 18.

Prices really started to take off after the Securities and Exchange Commission (SEC) approved the Barclays Bank silver exchange-traded fund on April 27. Gold climbed all the way to a close of $719.75 on May 11.

That day, it looked like my forecast of gold possibly reaching $1,000 by the end of 2006 just might come to pass.

However, according to at least two people (who wish to remain anonymous), there was an emergency meeting in early May, where then US Treasury Secretary Snow gave oral orders for the US government to force down the price of gold in such a way that the manipulation could not be traced.

The price of gold fell sharply, all the way down to $561.75 on June 14. A surge in demand for physical gold, either directly or through gold ETFs, brought the price zooming back up, hitting a peak of $666.50 on July 14. The price of gold remained above $600 until after Labor Day.

Another round of what I consider to be pre-US election manipulation knocked the gold down to $562 on October 4.

Then gold resumed its climb again, getting up to $646.50 on November 30. Gold went through another correction/manipulation once again, but only about 5% this time. It ended the year at $635.00, a gain of 22.7% for 2006.

Several significant factors affected the price of gold during 2006. The most important was the extraordinary surge in buying by private investors, investment funds, and central banks. The introduction of gold exchange-traded funds, where each share represents 1/10 oz of physical gold, made it possible for more investors to conveniently buy gold, and they did. I don't have current data on how much has been purchased this way, but it is over ten billion dollars.

Perhaps the second most important news was the series of revelations of ways in which the International Monetary Fund (IMF) and central banks had been reporting gold reserves being held in vaults that were actually out on lease and no longer possessed. In effect, a significant amount of gold had been double counted as part of official reserves. By over-reporting reserves, the central banks presented the potential that massive quantities of physical gold could be sold if the price rose too high.

Other factors supporting higher gold prices were the decline in central bank gold sales, the efforts by mining companies to keep reducing the amount of pre-sold gold contracts (which has the effect of decreasing current supply just as supplies in prior years had been artificially increased when the mines were increasing their pre-sold gold position).

Another factor which is still developing is the inflationary destruction of the U.S. dollar, and the growing number of central banks that are dumping some of their dollars to replace them with gold or other currencies. While the U.S. money supply was rising so fast that the U.S. government discontinued reporting the M3 money supply figures, and more central banks openly admitted that they were unloading dollars, the impact of this news was mostly kept in the background in 2006.

I believe that the decline of the U.S. dollar will be the major reason for the rise in the price of gold in 2007.

Although gold reached $600 and even $700 in 2006, it never got to $1,000 which I said it "could" do. So, my base prediction for gold came to pass, but the possible prediction did not (at least not yet).

Silver: Silver closed at $8.82 at the end of 2005. On January 2, it closed above $9.00 for the first time since 1987.

After touching a low for the year of $8.80 on January 5, silver started to move. A year ago, I predicted that silver would pass $10.00 by the end of February. It didn't pass that level until March 2.

Then silver passed $11.00 on March 29, $12.00 on April 6, $13.00 on April 17, and $14.00 on April 19.

When markets rise so far so fast, there is an inevitable correction, and silver quickly dropped to $11.78 on April 24.

On April 27, silver closed at $12.47. That day, the SEC approved the Barclays Bank silver ETF. Silver jumped the next day to close at $13.50, then to $14.09 two days after that.

Like gold, silver reached its high close for the year on May 11 at $14.84. During intraday trading in the U.S., silver topped $15.00 that day.

Then, right along with gold, silver plunged. Having almost doubled in price in the previous six months, it had farther to fall. By June 12, it had come all the way down to $11.04. The very next day, it collapsed to close at $9.65.

With such volatility, many existing and would-be silver investors did not know if they should sell or jump in to purchase. Those who understood the fundamental shortage of silver supplies took advantage of silver at these "bargain" levels and started pushing prices back up.

On July 3, silver closed at $11.10. For the next several months, until election day, prices ranged from the $10.70 to $13.06.

Once the U.S. elections were out of the way, investor demand really took off. Barclays Bank filed to increase the size of their ETF from 130 million to over 300 million ounces, which would represent a significant percentage of all available silver inventories worldwide. As of the end of 2006, investors had already bought shares representing 121 million ounces of physical silver (each share is for 10 ounces of silver) in this ETF.

Silver reached a high close of $14.06 on December 4 before prices were knocked down once again. Silver ended 2006 at $12.83, an huge increase of 45.5% for the year.

Between this ETF, an additional silver ETF that began operation in Tokyo, and other investor activity, physical demand for silver soared in 2006. The knowledge that there just is not enough physical silver to meet long-term demand is becoming more apparent over time.

A year ago, I predicted that the price of silver would top $15 within one month of the ETF being approved. It did.

But I also predicted that silver would be at least $20 by the end of 2006. That didn't happen (at least, not yet). I even stuck my neck out and said silver could reach $30 or even $50 in 2006.

A major reason it did not is the huge amount of paper silver sold onto the market during the last six months of 2006 by "four or fewer" major traders on the COMEX in New York. The COMEX reported that these major short-traders, who are unidentified and even the number of them is only identified as being from one to four parties, increased their short contracts during the year from roughly 180 million ounces to 230 million ounces. A good part of the increases seemed to happen right at times when the price of silver was ready to take off.

This concentration of such a huge short position is larger than the short position in the copper market for which the U.S. regulatory agency, the Commodity Futures Trading Corporation (CFTC) took corrective action. It is so huge that there is no practical way for these traders to extricate themselves without driving the price of silver through the roof.

A letter-writing campaign had to the CFTC urged that they investigate this manipulation of the silver market. For a long time, the CFTC ignored these letters.

Then the sponsors of the campaign changed tactics to contact the SEC. The new letter-writing campaign not only called for an investigation of the silver market, but also of the failure of the CFTC to take action. The SEC reply letters indicated that the matter would be looked at.

Late in 2006, following the SEC indication that they would do an investigation, the CFTC started responding to the letters written to them. The tone of the letters imply that the CFTC may get around to doing their own investigation, though nothing specific is promised.

Without this addition of 50 million ounces of paper silver onto the market in 2006, I am confident that silver would have reached $20 by the end of the year. I don't understand why traders who were so much in the hole at the beginning of 2006 would dig themselves in even deeper, except that they may be desperately trying to avoid going bankrupt.

Even before the surge in investment demand in 2006, the silver market had been in short supply every year since 1990, where new supplies (from mines, recycling, and government sales) did not cover industrial

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demand. Most of the above ground inventories of silver that existed at the end of 1989 have long since been consumed. There is every reason to expect these supply shortages to continue.

Like gold, my base projection that silver would reach $15 came to pass, but it didn't even hold that level, much less reach my higher expectations for later in the year.

Platinum: Platinum ended 2005 at $972, within 10% of the peak price it had touched in the 1979-1980 boom. It passed $1,000 on January 9.

It reached an all-time record high price by the end of January.

Platinum set its record high on May 23 at $1,308, coming twelve days after gold and silver hit their 2006 peaks. Thereafter, prices ranged down to a low of $1,051 and ended 2006 at $1,130.

I made no forecasts for platinum or palladium a year ago. The platinum market is experiencing only a small supply deficit over the past few years, which can be cured quickly with any jump in prices.

Platinum is not a financial metal. Its value is for its potential use in industrial applications of which there are many. Researchers claim that 20% of all fabricated products either contain some platinum or involved the use of a platinum catalyst in their production.

I believe that the platinum price performance lagged the other precious metals primarily because of its high level at the end of 2005. The high price levels also discouraged any increase in investor demand in 2006.

Instead of comparing my forecasts to what happened, lets compare the actual results against the forecasts made by 20 top precious metals analysts for the London Bullion Market Association a year ago. As a group, their average predicted high for the year was $1,111, with the highest specific forecast being $1,300. The average low forecast was $887 and the average of the average prices for the entire year was $983. Obviously, these cream of the crop experts were too conservative.

(By the way, they were also conservative on their gold and silver predictions. Of 25 analysts who forecasted gold prices, only one predicted that gold would go higher than $630 in 2006. The average high gold price prediction was $607.

As for silver, the 22 analysts who reported their projections were even farther off the mark. The very highest that any of them though the price of silver would reach was $13.50, with the average high price forecasted at only $10.37. The group's predicted price for silver over the entire year averaged $8.66, which was lower than it ever was at any time in 2006.)

Palladium: Palladium ended 2005 at $261 and finished 2006 at $334, a nice 28.0% increase for the year. I don't track this metal on a daily basis, because investor demand is tiny. As a consequence, I am not able to discuss the surge and wane of prices over the course of 2006.

Like platinum, palladium is strictly an industrial metal, with applications similar to those for platinum. In 2005, the Royal Canadian Mint began minting palladium Maple Leafs, but the number of coins struck by all mints combined represents barely 0.5% of all palladium industrial demand.

In 2006, the palladium market continued its general trend of new supplies exceeding industrial demand. The only reason that prices rose in 2006 is that some high-risk investors have been buying the metal in hopes of seeing far higher prices.

When the price of platinum soared several years ago, some manufacturers substituted palladium, leading to soaring demand and a temporary supply shortage that pushed palladium prices over $1,000 at the peak. Most of the price increase was fueled by speculators and not by fabricators. After the price spiked, prices eventually fell by more than 80%. As the platinum market is less prone to manipulation, I think it will be a long time before manufacturers again try replacing platinum with palladium en masse.

So, how did the panel of experts for the London Bullion Market Association do for palladium? Nineteen of them stuck their necks out, with average results not that far off the mark. The highest price anyone projected was $500, but the average of the high prices came to $359, which was close to the annual high. The mean prediction for the average price over the course of the year was $284, which was only somewhat conservative, not on the scale of how far they missed prices for the other three metals.

Rare Coins: As you can see in the table on page 1, it looks like the rare coin markets were generally flat in 2006. This happened even though some prices rose because of higher gold and silver prices.

As I discussed earlier, some of the indices are still at quite high levels since the start of 1999. The Collector Key-Date Coins Index rose 182% over the past eight years, the Silver Proof Sets Index is up 107%, the Large Size Currency Index is up 72%, the Collector Generic Coins Index is up 59%, MS-65 Morgan Dollars are up 39%, MS-63 $20 Liberties are up 55%, and MS-63 Saints are 45% higher.

To be complete, here are the other results: the Investor Blue Chip Coins index is 27% higher than eight years ago, the Investor Better Date Coins index rose 24%, while the 1968-1998 Non-Silver Proof Sets are up just 11%.

One specific event in 2006 pulled a lot of collector money away—the June introduction of the U.S. Mint's 1 Oz Gold Buffalo in uncirculated and proof condition. Over a half million coins sold to investors and collectors, which represents well over $300 million. A substantial part of this money would have gone to other numismatic purchases if not spent on Buffaloes.

Perhaps the most obvious evidence of this difference is that the strongest performing niche in 2006 was currency, with a collector base least likely to be interested in the Buffaloes. Another supporting indicator is that premiums fell on a number of circulated U.S. gold issues as customers bought the Buffaloes in lieu of such coins (or even traded in some of these coins to purchase Buffaloes).

Overall, the rare coin market expanded substantially in 2006. Many existing companies, including LCS, enjoyed significant growth in rare coin sales. The number of coin dealerships, even ignoring those who only deal on the internet, also rose.

So, even though rare coin market may not have performed as well as it has done in several recent years, it did well in the circumstances.

Summary: Overall, precious metals clobbered the results for paper assets—again. The rare coin market treaded water.

So what do things look like for 2007?

Fearless Forecasts For 2007

A year ago, it seemed pretty obvious that the precious metals markets were destined to rise. The tricky part was to figure by how much.

Well, now that markets are higher than a year ago, I'm not quite as confident that the only direction is up. There is a larger, though still small, chance that markets may stagnate or even decline from current levels. Rather than try to predict specific prices for the end of 2007, let me give you my estimated probability for the various range of prices.

Gold Projections

Price at end of 2007	Probability
$600 or less	5%
$601-750	20%
$751-1,000	20%
$1,000-1,999	40%
$2,000 or higher	15%

Silver Projections

$13 or less	5%
$13.01-20.00	25%
$20.01-50.00	40%
$50.01-99.00	20%
$100.00 or higher	10%

Again, I choose not to forecast the platinum and palladium markets because they are affected by many more non-financial factors than are gold or silver.

The rare coin market will be much stronger in 2007 than in 2006 for three specific reasons—the introduction of the U.S. President Dollar coins in February, the U.S. Treasury's ban on the melting of nickels and cents, and the diminished diversion of funds to Buffaloes. Below I will go into more detail of a number of

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coins which I think are undervalued relative to other coins, and as a group will likely outperform average coin appreciation in 2007.

Before I get to that, however, I need to explain why I think gold and silver have such a wide range of possible prices at the end of 2007, and why I think there is a significant possibility that prices could explode sometime within the next twelve months.

Factors Affecting Precious Metals And Rare Coins In 2007

There are several factors which could have significant impact on the gold, silver, and rare coin markets in 2007.

1. Falling U.S. Dollar. Whatever happens to the value of the U.S. dollar in 2007 will have a huge effect. The signs all pointing to the dollar dropping 10%, 20%, or maybe even 50% by year end are in place. Last year, well over a dozen central banks announced that they had already unloaded, or would start soon to sell, part of their foreign exchange reserves of U.S. dollars to be replaced by other currencies or gold.

The two largest hoards of U.S. dollars are held by the central banks in China and Japan. Between them they may now hold over $1 trillion in U.S. dollars and dollar-denominated debt. They have so much that they are trapped into trying to cooperate in supporting the value of the dollar, to avoid a financial problem in their own nations.

When the deputy chairman of the Chinese central bank stated in late November that the value of the dollar is going down, that made the drop of the dollar pretty much a sure thing. The uncertainly is how fast and how much the dollar will decline.

Even if the American stock markets have a "good" year in 2007, such increases could be completely wiped out by the fall in the value of the dollar.

U.S. Treasury Secretary Paulson and Federal Reserve Chair Bernanke made a special emergency trip to China in December. Although the official reasons for the trip did not include the subject, it is almost certain the a major part of the meetings were devoted to seeking Chinese cooperation in propping up the value of the dollar.

In a speech, Bernanke told the Chinese that since their policy of holding down the value of the yuan for 30 years had contributed to rapid domestic economic growth, the Chinese should change that policy. He also stated, in standard bureaucratic doublespeak, that the high savings rates in China had contributed to China's rising prosperity, so the Chinese government should adopt policies to reduce the savings rate.

As any sensible politician would do, Chinese officials refused both requests (orders?), perhaps thinking that Americans should be responsible for and suffer the consequences of the falling value of the dollar.

Any significant slide in the U.S. dollar in 2007 will spur more central banks to move out dollars. If too many try to do so at the same time, the dollar could drop sharply within a matter of weeks. The price of gold would soar of this happens, which is why you need to establish your gold position now rather than risk being too late.

2. Central Bank Gold Price Manipulation. More evidence is being uncovered to show that central banks have been active at surreptitiously disposing of huge amounts of gold, perhaps on the scale of 50 million ounces annually, trying to hold down the price of the metal. Although the official U.S. government line is that all of the 260+ million ounces of gold in its vaults is still there and owned by the U.S. government, there are increasing signs that the U.S. arranged for at least 14 million ounces of gold to be dumped onto the market in the months after Treasury Secretary Snow ordered that the price of gold be knocked down from $700.

On October 5, German central bank president Axel Weber was interviewed by reporters in Paris about what plans that bank had for its gold reserves.

Weber said, "We are not envisaging gold sales for their third year [of the current agreement with other central banks]. We have been asked to negotiate with other central banks" about potential swap deals involving gold.

The implication of this statement is that some other central bank that had a large gold reserve needed to sell a lot of gold but was unable to use its own metal. Thus, the German central bank would sell and deliver its gold and take title to an offsetting amount of gold in the vaults of the other central bank.

The gold in the U.S. vaults could not be physically moved without the news leaking out. I highly suspect that the U.S. is the other party to these swaps that the German central bank is negotiating, and that a significant part of the "U.S." gold reserves are no longer owned by the U.S.

Any further documentation about central bank gold being quietly dumped on the market, especially if it turns out that the U.S. has done so, could lead to a quick spurt in the price of gold.

There is a lot of maneuvering in the gold market. The December issue of *BIS Quarterly Review* reveals that value of outstanding gold swaps increased from the end of 2005 to the end of June 2006 from $128 to $148 billion and that open options increased from $206 to $308 billion.

As the mines have been closing out their pre-sold gold contracts, they have been returning gold to the central banks. Because of this, you would normally expect the amount of gold derivatives to decline. In fact, the amount of open forwards and swaps dropped by 6.4 million ounces.

However, short options increased by more than 96 million ounces in the first six months of 2006! That is an awful lot of gold that could be used, for instance, to try to hold down gold prices. Eventually, these options will expire. Where will the gold be found to cover them?

3. Ban On Melting Nickels And Cents. On December 14, the U.S. Treasury announced an immediate ban on the melting of U.S. nickels and cents. In doing so, the Treasury publicized that fact that the value of copper and nickel in the nickels and the zinc and copper in the cents is now worth more than face value. In addition to banning domestic melting of these coins, the regulations severely limited the quantity of such coins that may be exported (no more than $5.00 face value of cents and nickels may be carried out of the country by tourists, subject to imprisonment and fines)

I expect this ban will backfire. By increasing public awareness that these coins are worth more for their metal content than as circulating money, more people will hoard them. At least eight times in American history, staring with the Revolutionary War and most recently with the ban on melting silver coins in the 1960s, the U.S. government has tried to keep citizens from hoarding money with high intrinsic value. All such efforts failed.

Not only will this action likely speed up the disappearance of nickels and cents from circulation, it will invariably lead to an increase in the number of coin collectors, if past experience holds true to form. The U.S. Mint will have to change the composition of these coins in order to keep producing them cost-effectively. Whenever there has been a major change in U.S. paper money or coinage, collecting activity has soared, most recently with introduction of the State Quarter series in 1999 and the introduction of the Sacagawea Dollars in 2000. The attention and interest this time will be magnified because the Mint will begin releasing the series of U.S. President Dollars next month starting with George Washington.

4. Ban on Melting Nickels And Cents, Part 2. An almost overlooked aspect to the government's ban on melting nickels and cents is the manner in which the new law was imposed. Normally, proposed Federal regulations are published in the Federal Register so that interested parties have the opportunity to provide useful feedback before the final regulation is promulgated and becomes effective.

In this instance, the Treasury gave their provisional regulation immediate effect, saying that they would accept comments for a possible revised regulation in three months. I don't think it can be overemphasized that this irregular procedure of implementing a new regulation first, then discussing it a possibly modifying it later sets off a lot of red alarms. For one thing, I interpret the move as a sign of desperation that Treasury officials worried that all cents and nickels would disappear from circulation within the normal 90 day com-

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ment period.

Even more worrisome to me is the precedent that the U.S. government has established that it can order U.S. citizens what to do with the money already in their possession. Might the Treasury become so worried about other financial problems that it enacts other instant regulations that restrict what Americans can do with their financial assets?

I would not be surprised if this ban on melting nickels and cents have at least some tiny effect at reducing the value of the dollar in international circles.

At one time, the U.S. had circulating gold coins, until gold became too valuable. Then we still had silver coins, until the value of the dollar fell so much that silver became too valuable to use for coins. Now we are in the position where copper, nickel, and zinc are too valuable to use to make coins. What's next? Will the value of the dollar fall so far that one day paper will be too valuable to use for money? Don't laugh—it happened in Germany after World War I.

5. USA Patriot Act Anti Money Laundering Regulations. To implement part of the 2001 USA Patriot Act, a Treasury regulation took effect at the beginning of 2005 requiring many coin dealers and jewelers to be on the alert for potential terrorists trying to hide their finances through the purchase and sale of bullion and rare coins. Virtually all full-time coin dealers are required to obtain positive identification from in-store customers (retail and wholesale alike) buying or selling quantities of bullion.

Dealers will not have to file any new paperwork with the government as a result of this regulation, but they are required to keep these records to prove that they are on the look out for terrorists. The Internal Revenue Service (IRS) is training a group of agents to visit jewelers and coin shops for the sole purpose of checking whether the merchants are obtaining and retaining this information on their customers. Rather than focusing on catching actual terrorists, the new regulation establishes a new class of "criminals" (jewelers and coin dealers that don't meet the paperwork requirements of this regulation) that can be located and prosecuted.

As these IRS agents start to visit a lot of coin dealers, expect to lose even more financial privacy as some dealers go overboard trying to avoid fines and jail terms for inadequate paperwork. (Note: LCS should be in good shape with this as our program to comply with this regulation was drafted by the attorney who used to work for the IRS training agents on money laundering issues, and who also contributed input to these very regulations.).

As the public gets the sense that there is "something wrong" with buying jewelry or trading precious metals or rare coins, expect an increase of demand from people trying to buy before such items may become illegal to acquire.

Incidentally, the regulation contains a definition of "bullion" which jewelers and coin dealers must use to determine if they need to comply with this regulation. Any precious metal item that is sold or purchased for less than double the value of its metal content is considered "bullion." If you are selling a common MS-65 $20.00 St Gaudens today, that is now considered bullion for purposes of this regulation, as are many numismatic coins.

In the mid-1980s, a lot of telemarketers falsely claimed that there were government regulations that defined as bullion only those coins that were bought and sold within 15% of the value of its metal content. The purpose of this ploy was to scare potential customers into purchasing higher profit-margin rare coins instead of bullion because this threshold somehow made coins "exempt from confiscation." At one point, the IRS even issued a press release stating that there were no such regulations with this definition of bullion.

Now, if the U.S. government ever needs to come up with a definition of bullion, it already has one in the regulations for Section 352 of the 2001 USA Patriot Act.

6. The Magnitude Of The Silver Shortage. Over 70% of newly mined silver comes as a by-product or co-product of lead, zinc, gold, and other mines, where the value of the recovered silver is only a minor part of the value of the business. Higher prices of other metals in the past couple of years have spurred more production from such mines.

As a result, new supplies of silver climbed so much in 2006 that, for the first time since 1989, silver supplies may exceed industrial demand for silver, in the range of 45-50 million ounces.

Don't get worried thinking that a silver glut is just around the corner. From this surplus you have to subtract investment demand. Let's see, 121 million ounces went into the Barclay's Bank silver ETF since April, other silver went into other silver ETFs, and a lot of silver was purchased direct by investors. I don't have totals, but it is obvious that the silver market is still in a shortage.

We are likely to see even more silver come onto the market in 2007, yet still have an even larger worldwide shortage for the year. Even if the silver market stays quiet otherwise, the price should rise

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Best Values in $20.00 St Gaudens Today

Date	*MS-60*	*MS-61*	*MS-62*	*MS-63*	*MS-64*	*MS-65*	*MS-66*
1907			**$1,200**	**$1,400**	**$2,000**	**$4,000**	**$8,000**
1908-D No Motto				**$1,200**	**$2,800**	**$12,000**	**$35,000**
1908 With Motto			**$1,200**	**$2,000**	**$6,000**	**$27,000**	**$35,000**
1908-D With Motto			**$850**	**$1,500**	**$2,500**	**$7,000**	**$15,000**
1909	$775	$800	**$1,800**	**$4,000**	**$12,000**		
1909/8	$1,500	$2,500					
1909-D	$2,000	$2,500	**$5,000**	**$9,000**	**$18,000**	**$50,000**	**$100,000**
1909-S	$775	$800	$850	$900	**$2,000**	**$7,500**	**$20,000**
1910	$775	$800	$850	$900	**$2,000**	**$10,000**	**$32,000**
1910-D	$775	$800	$850	$900	$1,100	**$4,000**	**$9,000**
1910-S	$775	$800	$850	**$1,200**	**$2,700**	**$11,000**	**$30,000**
1911	$775	$800	**$1,200**	**$2,500**	**$5,000**	**$18,000**	**$35,000**
1911-D	$775	$800	$850	$900	$1,100	**$2,200**	$2,700
1911-S	$775	$800	$850	$900	**$1,800**	**$6,500**	**$18,000**
1912	$775	$800	$850	**$2,000**	**$5,000**	**$25,000**	**$65,000**
1913	$775	$800	**$1,500**	**$3,500**	**$10,000**	**$55,000**	
1913-D	$775	$800	**$850**	**$1,200**	**$2,200**	**$7,500**	**$40,000**
1913-S	$1,700	$2,200					
1914	$1,300	$1,400	$1,600	$3,500	$8,000	$25,000	**$50,000**
1914-D	$775	$800	$850	$900	**$1,500**	**$3,500**	**$7,500**
1914-S	$775	$800	$850	$900	$1,100	**$2,700**	**$7,500**
1915	$775	$800	**$1,200**	**$2,500**	$6,500	$30,000	
1915-S	$775	$800	$850	$900	$1,100	$2,500	$6,500
1916-S	$775	$800	$850	**$1,200**	**$1,800**	**$3,500**	$5,500
1920	$775	$800	$850	**$1,200**	**$5,000**	$65,000	
1922	$775	$800	$850	$900	$1,100	**$5,000**	**$20,000**
1922-S	**$2,500**	$3,000	$3,500	**$5,000**	**$9,000**		
1923						**$7,500**	**$50,000**
1923-D						$1,700	$2,700
1924, 1925, 1926, 1927, and 1928							$2,700
1924-D		$4,000					
1924-S	$3,500	$4,000					
1925-D		$4,500	$6,500				

The catalog values listed are from *Coin Values*. It may be possible to acquire some coins for less than these prices, while others may not be available for catalog prices. **Bold prices** are the highest recommended coins, non-bold coins are recommended coins.

(Continued from page 5)
for this reason alone.

7. The Risk Of Commodity Market Failures For Nickel, Copper, Gold, Or Silver. I previously wrote about extremely tight nickel supplies on the London Metals Exchange, where a few months ago, traders were paying as much as 3% of the value of a contract to obtain a one-day extension to deliver nickel.

If any single metal commodity market collapses because there simply isn't enough metal to meet contracted deliveries, this would almost certainly spread to other metal commodity markets. At the moment, the nickel market may be the most precarious. If that fails, the copper market would likely be the next domino to fall. Gold and silver would be close behind.

In the event of a commodity market failure, manufacturers would be scrambling to obtain physical product. Prices would soar. Fortunes would be lost—and made.

It is also entirely possible that the COMEX silver market could fail sometime in 2007. If the CFTC announced that they were starting to investigate the huge concentrated short positions in silver, I think the price of silver would jump at least 20% instantly.

The CFTC has previously taken action when the copper market had a too large, too concentrated short position that was not even of the magnitude of the imbalance in the silver market. So it is within the realm of possibility that such an announcement could happen. I am sure that the officials of the COMEX are communicating with the parties holding the huge silver short positions to try to find a way out of the quagmire. I just cannot see how they can extricate themselves without causing an explosion in the silver price.

If the COMEX silver market fails, I would expect the price of silver to top $50 within a matter of days. The longer it takes for this event to come to pass, the higher the price of silver could jump.

As announcements such as I describe could occur literally at any moment, even though they may not happen until 2008 or later, the best time to buy your silver is right now.

Top Rare Coin Values

Although I expect the rare coin market to do well in 2007, even if the prices of gold and silver are restrained, not all rare coins will fare the same.

Part of what we try to do at LCS is identify numismatic niches and specific coins that appear to be undervalued relative to other coins, and also have a greater than potential for appreciation.

There are six specific niches where there a number of great value opportunities. The impending release of the U.S. President Dollars will almost certainly spark increased demand for previous dollar issues such as the **Morgan and Peace Dollar** series. Other niches I like are selected types of **High Grade U.S. Common-Date Gold Coins, Better Date U.S. Gold Coins, U.S. Classic Gold Commemoratives, U.S. Silver Commemoratives, and U.S. Type Coins**.

For various series, I am analyzing the relative rarity of coins in different grades popular with collectors and investors, past relative price history, current catalog values, intrinsic value, and other intangibles such as, on some issues, the popularity of the design.

Over the next several months, I will present different specific analyses. This month, I offer my top recommendations in the Peace Dollar (below) and $20.00 Saint Gaudens (on the previous page) series:

Peace Dollars *Date*	**Grade** *MS-64*	*MS-65*	*MS-66*
1921		$2,700	
1922		**$200**	
1922-D	**$125**	**$450**	
1923		**$200**	
1923-D			$6,000
1923-S		$6,500	$15,000
1924		**$200**	
1925		**$200**	
1926		**$450**	**$2,000**
1926-D			**$2,200**
1926-S			$6,000
1927			**$22,000**
1927-D		**$5,500**	$25,000
1927-S		$14,000	$45,000
1928		$5,000	
1928-S		$23,000	$35,000
1934			**$4,000**
1935	$225		**$2,200**
1935-S	$700		**$3,000**

The catalog values listed are from *Coin Values*. It may be possible to acquire some coins for less than these prices, while others may not be available for catalog prices. **Bold prices** are the highest recommended coins, non-bold coins are recommended coins.

The Month

Gold Range	41.25	6.5%
Net Change	-24.00	
Silver Range	1.92	14.2%
Net Change	-1.21	
Gold/Silver Ratio		49.5
Net change		+2.6
Platinum Range	70.00	6.1%
Net Change	+2.00	
Platinum/Gold Ratio	1.87	

Date	**Gold**	**Silver**	**Platinum**
Nov 29	635.50	13.56	1,142.00
Nov 30	646.50	13.92	1,165.00
Dec 01	644.50	13.99	1,144.00
Dec 04	645.00	14.06	1,145.00
Dec 05	642.25	13.85	1,124.00
Dec 06	630.50	13.61	1,117.00
Dec 07	631.50	13.86	1,117.00
Dec 08	626.00	13.72	1,099.00
Dec 11	629.75	13.84	1,101.00
Dec 12	627.00	13.81	1,108.00
Dec 13	628.00	13.75	1,101.00
Dec 14	626.50	13.79	1,106.00
Dec 15	615.00	12.83	1,095.00
Dec 18	614.25	12.40	1,101.00
Dec 19	621.50	12.57	1,117.00
Dec 20	620.50	12.51	1,124.00
Dec 21	618.00	12.36	1,124.00
Dec 22	619.00	12.51	1,118.00
Dec 25	closed		
Dec 26	623.75	12.60	1,120.00
Dec 27	627.25	12.80	1,121.00
Dec 28	634.00	12.82	1,110.00
Dec 29	635.00	12.83	1,130.00
Jan 01	closed		
Jan 02	639.50	13.15	1,136.00
Jan 03	627.25	12.56	1,122.00
Jan 04	624.00	12.73	1,118.00
Jan 05	605.25	12.14	1,100.00
Jan 08	607.50	12.25	1,114.00
Jan 09	613.00	12.50	1,120.00
Jan 10	611.50	12.35	1,144.00

London Silver Market Premium To New York Silver Market = 3¢

Gold, silver and platinum quotes are working spots at 1:45 EST/EDT each day, quoted in U.S. dollars per troy ounce.

Final Thoughts

Normally I discuss specific developments for the gold and silver products, but there just isn't room this month.

To be prudent, I recommend that precious metals and rare coins make up a minimum of 10-20% of your net worth. Look at them as insurance against calamities that may befall your paper assets.

Although I think financial precautions are important, do not focus so much on the money part of life that you don't take time to enjoy and appreciate your family and friends. Friends move away. Children grow up. Parents become disabled or die. It is better to make time in your life now, because you won't be able to "catch up" later.

In just over the past year, LCS founder R. W. Bradford died, followed by my father-in-law Gary, then my mother-in-law Dorothy. No amount of dollars or gold or silver will ever replace them.

While you are at it, take care of your own health as well.

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