Liberty's Outlook

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While Average Gold Price In 2008 Rose 25% Above 2007 Average Price,

Global Stock Market Values Decline By $32 *Trillion!*

Page 4: 10 Fearless Forecasts For 2009!

Special Urgent Action Issue!

In 2007, governments and central banks flooded paper asset markets with at least one trillion dollars of liquidity to help prop up the values of paper assets such as stocks, bonds, and mortgages.

In 2008, government subsidies shifted into hyperdrive. By the end of November, the US government by itself had already spent more than $3.2 trillion since the series of financial crises started in mid-2007. On top of this, the US government made commitments of more than $5 trillion more in bailouts (see last month's issue for the gory details).

Other governments and central banks around the world have also expended trillions of dollars worth of funds to support financial markets.

Did all these subsidies and bailouts succeed?

Not by a long shot.

One investment analyst calculated that global stock market losses in 2008 totaled $32 trillion! On top of that you have to add the trillions lost from declining bond values.

Even worse, people around the world have lost the comfort and trust they formerly had in financial markets and institutions.

All year long, but more aggressively as we neared the end of 2008, major nations around the world took actions to knock down the value of their currencies. They reduced interest rates, making investments in bonds denominated in their currencies less attractive.

Banks around the world teetered on the brink of collapse. After experiencing only three bank failures in the previous three years combined, the US suffered at least 25 admitted bank failures in 2008. That total

2008 Results

Precious Metals		
Gold		+6.1%
Silver		-22.5%
Platinum		-37.1%
Palladium		-45.0%
Numismatics		
US MS-63 $20 Liberty		+26.7%
US MS-63 $20 St Gaudens		+24.3%
US Silver Proof Sets 1950-1964		+14.4%
US MS-65 Morgan Dollar, Pre-1921		+10.3%
US Large Size Currency Index		+4.2%
LCS US Invest Better Date Coins Idx		+1.2%
LCS US Invest Blue Chip Coins Idx		-4.6%
LCS US Collect Key-Date Coin Idx		-5.4%
LCS US Collect Generic Coins Idx		-5.6%
US Non-silver Proof Sets, 1968-98		-25.8%
US Proof Silver Eagles, 1986-1998		-33.4%
Commodities		
Cocoa, Ivory Coast		+21.1%
Broilers, Dressed "A"		+14.4%
Cottonseed meal		+14.3%
Hogs, Sioux Falls		-1.4%
Sugar, can, raw, world		-2.1%
Beef, choice		-3.2%
Coffee, Columbian NY		-7.7%
Butter, AA Chicago		-9.6%
Corn, #2 yellow		-11.1%
Soybeans, #1 yellow		-17.3%
Eggs, large white Chicago		-22.2%
Sorghum (Milo) No. 2 Gulf		-22.5%
Natural Gas		-24.7%
Wheat, Hard KC		-27.9%
Hominy feed, Cent IL		-30.8%
Oats, #2 milling, Minneapolis		-33.2%
Aluminum		-33.4%
Lard		-34.4%
Cheddar Cheese, bulk Chicago		-44.3%
Zinc		-51.0%
Copper		-56.6%
Corn oil, crude wet/dry mill		-58.0%
Nickel		-58.0%
Gasoline, conv reg NY		-59.3%
Crude Oil, Brent		-64.3%
US Dollar vs Foreign Currencies		
South Africa Rand		+39.1%
Great Britain Pound		+36.9%
South Korea Won		+35.1%
New Zealand Dollar		+32.2%
Brazil Real		+30.8%
Chile Peso		+28.3%
Mexico Peso		+26.0%
Canada Dollar		+24.0%
India Rupee		+23.3%
Australia Dollar		+23.2%
Thailand Baht		+16.8%
Indonesia Rupiah		+16.2%
Philippines Peso		+15.3%
Peru Soles		+6.7%
Euro		+5.4%
Malaysia Ringitt		+4.2%
Taiwan Dollar		+0.9%
Hong Kong Dollar		-0.6%
Singapore Dollar		-0.9%
Switzerland Franc		-5.2%
China Yuan		-6.5%
Japan Yen		-19.2%
U.S. Dollar Index	81.308	+6.0%
US And World Stock Market Indices		
Johannesburg All Share		-25.7%
London FT 100		-31.4%
Dow Jones Industrial Avg		-33.8%
Russell 2000		-34.8%
S&P 500		-38.5%
Frankfurt Xetra DAX		-40.4%
NASDAQ		-40.5%
Sao Paulo Bovespa		-41.2%
Australia S&P/ASX 200		-41.3%
Nikkei 225		-42.1%
Dow Jones World (excluding US)		-46.0%
Shanghai A Shares		-65.4%

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would have been much higher if the US government had not aggressively sought to keep failing banks open (such as National City, Washington Mutual, Wachovia Bank) until a merger could be arranged.

In Iceland and Great Britain, the governments, for all practical purposes, nationalized the largest banks.

With so many banks and private companies failing, access to credit virtually evaporated. Even stable, sound, credit-worthy would-be borrowers often found that credit could not be obtained.

The US and much of the rest of the developed world is in a recession or depression.

If you go to www.shadowstats.com to check out current US economic data calculated by the methodologies formerly used by the US government, you will see that consumer inflation in the country is now just below 10%, the increase in the M3 definition of the money supply is about 10%, and unemployment is running 16%.

According to the latest report from the Federal Reserve, the M1 definition of the money supply has increased over the last three months at an annualized rate of more than 36%!

To finance all the bailouts and subsidies, the US government has taken on record amounts of new debt, more than doubling its official debt during the course of 2008. In just one day in late December, the government added more debt ($146 billion) than it took on for the entire cost of fighting World War II!

Many people today are worse off than they were a year ago. It is of small consolation that the price of gold is higher since the end of 2007, since gold only makes up little or no part of most people's assets.

Before I go on to discuss what I think we are facing in 2009, it would help to first review the precious metals markets in 2008.

A Look Back At 2008

Gold: After gold ended 2007 at $835.00, it spent most of 2008 at even higher levels.

On January 2, gold closed at $857.00, its highest ever (if you ignore inflation) to that time. The spot price then passed $900 on January 14.

Much of the impetus for higher prices early in the year was a reaction to the electricity shortage in South Africa that forced the closure of many gold and platinum mines in the country.

But, as the succession of financial crises unfolded, many investors fearing further losses in the value of paper assets purchased gold and silver as safe havens.

In mid-March, when investment brokerage Bear Stearns collapsed and was absorbed by JP Morgan Chase bank (with tens of billions of dollars of subsidies from the federal government), the spot price of gold broke over $1,000 for the first time.

Gold reached its highest close in US markets on March 18 when it settled at $1,003.25. However, gold reached as high as $1,035 during intraday trading before the close.

As the fears of an imminent market crash subsided, the price of gold ranged from the mid-800s to upper $900s for the next several months.

The US Commodity Futures Trading Commission (CFTC) in their August 3 monthly Bank Participation Report revealed that two or three unidentified banks (later it was learned that JP Morgan Chase was one of these banks) had recently acquired huge short positions in the New York COMEX gold and silver markets. For gold, the increase in the short positions approximated 10% of annual worldwide gold mine production.

After gold closed at $977.75 on July 15, the impact of sales of these paper contracts for future delivery slammed the price of gold. On August 11, the price of gold finally had its first close of the year below where it finished 2007. Gold then had its first close of the year below $800 on August 15.

The price of gold eventually fell as far as $749.25 at the close on September 11. Then the quick succession of financial crises involving Fannie Mae, Freddie Mac, AIG, Washington Mutual, Wachovia Bank, Goldman Sachs, and others raised investor fears to new heights.

US President Bush called on Congress to approve $700 billion in a financial bailout. That eventually grew into more than $800 billion in subsidies in order to get enough legislators to vote for the bill.

As uncertainty reigned in mid-September, the price of gold soared. On September 18, it set an all-time one-day record for the largest price increase. Depending on which aftermarkets you used, the price of gold rose between $80 and $90 in US markets that day.

With the price of gold threatening to again set new record highs, the US government and its trading partners actively sought to manipulate prices downward. While no central banks are taking credit for the deeds, there was a noticeable increase in the number of gold bars appearing on world markets—the kinds of bars manufactured by the US government starting in the 1930s from melting down all the gold coins it had purchased from the public in 1933.

The gold price suppression schemes worked for a while. Gold reached its low close for the year on November 13 at $715.00, with intraday prices briefly dipping below $700.

From the low point on November 13, the price of gold climbed more than 20% to close the year at $886. For 2008, gold rose a net 6.1% over the course of the year. This was the eighth consecutive higher year-end gold spot price!

Although gold did not end 2008 close to its all-time highest price as measured in the US dollar, it was at or near its highest prices ever in terms of the British Pound, India Rupee, South Africa Rand, Australia Dollar, New Zealand Dollar, South Korea Won, among others.

When the spot prices of gold and silver started falling in mid-July, the surge in demand for physical gold was so strong that retailers around the world exhausted their inventories. Shortly thereafter, wholesaler inventories were exhausted. The government mints and private manufacturers simply could not keep up with demand, even when expanding production to three shifts seven days a week.

The US Mint, for instance, simply stopped selling 1 Oz **Buffalo** Gold Coins by the beginning of October and has yet to announce a date when it will again produce more of them.

Even precious metals traders with 30-40 years of experience had never seen public demand for gold and silver such as we experienced in the past six months. As delivery times stretched further into the future and some dealers were simply unable to accept any orders for gold and silver bullion-priced products, premiums rose.

Efforts by some affluent buyers to do an end run around the shortage of physical gold and silver markets by purchasing COMEX futures contracts and requesting delivery were often stymied. For instance, at least one brokerage firm told clients that, unless they already had a history of purchasing COMEX contracts and taking delivery, that they could not now purchase such contracts for delivery.

For the past several months, there has effectively been a two-tier gold and silver market. The paper contract spot prices as determined by the COMEX for theoretical future delivery of gold and silver are lower than the effective spot prices at which physical metals are traded.

For physical gold products that could be purchased for 3-6% above spot up to July this year, buyers are now regularly paying $75-125 per ounce above the COMEX "spot price" and almost always having to wait for delivery.

The structural problems with the COMEX led to a major decline in trading gold and silver on that exchange. At the beginning of 2008, the COMEX had about 600,000 open gold contracts. Many

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buyers pulled out of the COMEX to instead buy contracts in the London market. At the low point in 2008, the open interest in COMEX gold contracts fell to nearly 250,000. By year end, the resumption of rising gold prices had brought an increase on the COMEX to about 320,000 contracts.

Goldman Sachs is one of the US governments trading partners and almost certainly complicit in the efforts to help suppress gold spot prices. At the beginning of 2006, this company had a sizeable short position on the Tokyo TOCOM futures exchange. Since then, it is been steadily reducing that position, finally achieving a net long position on the TOCOM for the past several weeks.

Silver: The silver market had many parallels with the gold market in 2008.

Silver closed at $14.80 at the end of 2007, the fifth consecutive year of ending with a higher close than the year before.

A year ago, I forecasted that silver had a good chance to surpass $20.00 by March 10.

Silver had its first close above $16.00 since 1980 on January 10, its first close above $17.00 on February 8, at $18.00 on February 22, over $19.00 on February 27, and finally closed at $20.10 on March 3.

Silver hit its peak closing for 2008 at $20.57 on March 14, its highest close since January 1980. During that day, some silver contracts traded above $21.00 per ounce.

Although there has been no official confirmation from either the US government or the parties involved, it appears that Bear Stearns owned a huge short position in the silver market in the months leading up to the firm's collapse in mid-March. In fact, the existence of significant losses on this short silver position probably contributed to the failure of the company.

It also appears that executives at JP Morgan Chase were little aware of these silver short positions at the time the bank bought Bear Stearns. The only way for JP Morgan Chase to avoid facing billions more in losses from these positions would be for the price of silver to fall by a lot.

Guess what—silver fell sharply over most of the remainder of 2008. It bounced around in the $15-18 range for a few months, even closing at $19.17 on July 14. However, the massive amount of new short sales on the COMEX silver market that started in mid-July had their intended effect.

Silver closed under $15.00 on August 11, at $13.00 on August 15, at $11.84 on September 9, and as low at $10.72 on September 16.

With the financial turmoil in late September, silver rallied to close at $13.67 on September 26. Then it was mostly downhill from there.

Silver settled under $10.00 on October 17, then reached its low close for the year at $9.39 on October 28.

Silver's US closed ranged from $9.40 to $11.67 for the rest of the year before closing at $11.47 on December 31.

Like gold, physical silver enjoyed tremendous retail demand since mid-July. Premiums for physical silver jumped much higher than they did for gold, almost certainly because there are no significant government inventories of silver that could be released.

At the peak bags of US **90% Silver Coin** were selling for more than 50% above their silver content. Several would-be silver purchasers balked at paying these high premiums.

Even though the US Mint set an all-time record for annual production of US **Silver Eagle Dollars**, more than 20 million coin in 2008 (almost double the previous annual record), public demand was insatiable. It wasn't until these coins were selling for about double silver value that buyers showed price resistance.

Resistance to paying high premiums eventually had some effect on premiums for many bullion-related products. By the end of the year, the premium for 90% Silver Coin bags was down under 25%. That was still much higher than the norm over the past few years when 90% Silver Coin could typically be purchased for little more than its silver value.

At the Silver Summit in Coeur d'Alene, Idaho in September, several top silver market analysts agreed that the spot price of silver would have to top $20.00 again before we will see much lower premiums. At current levels, those who own physical silver are largely holding onto their position. At the same time, many people continue to try to build their position.

Platinum: Platinum ended 2007 at $1,510, just slightly below the all-time highest price that it had reached five days earlier.

The massive electricity shortage in South Africa, the world's largest platinum producing nation, shut down several platinum mines in early. 2008. Platinum's price topped $1,600 on January 24, $1,700 on January 28, $1,800 on February 6, $1,900 on February 11, $2,000 on February 15, $2,100 on February 19, and $2,200 on March 4.

Platinum hit is all-time peak on March 5 when it closed at $2,225.00.

But the speculative frenzy was overblown. Prices bounced around for the next several months from the $1,800s to $2,100s. Platinum closed for the last time above $2,000 on July 14.

A major technological change suddenly appeared. Mitsui Mining and Smelting announced during the summer that it was close to going into commercial production of a catalytic converter for diesel engines that used ten ounces of silver for the catalyst in place of platinum!

Since catalytic converter usage accounts for more than 50% of all platinum demand, and the likelihood that a silver-based catalytic converter for gasoline engines would easily follow the one for diesel engines, the price of platinum collapsed.

By August 4, the price of platinum settled at $1,556. On September 3, it broke below $1,400. It dropped under $1,300 on September 9, under $1,200 on September 11, then below $1,100 on September 30.

On October 16, platinum closed in US markets at $962. It touched its low for 2008 when it closed on December 5 at $807.00. Several days during the last few months of the year, the spot price of platinum fell below the price of gold (as I had forecasted to several customers during the summer).

With gold and silver, platinum enjoyed a modest resurgence to close 2008 at $950. Even with this recovery, however, the price of platinum fell 37.1% for the year.

In general, the platinum and palladium markets are primarily affected by industrial demand. Although we have had many more inquiries about purchasing physical platinum since prices fell in the past few months, we have found that most such would-be purchasers were unaware of the technological shift in platinum industrial demand. We have also learned that most of those who own physical platinum for investment are not willing to consider selling at current prices, which are now less than half of what they were just a few months ago, and are also unaware of the forthcoming silver catalytic converters.

At some point, the price of platinum will fall far enough to establish a new equilibrium. I don't think we are there yet. In the long-term, I think the value of gold will be higher than platinum.

Palladium: Palladium supplies have exceeded demand by significant amounts each year for at least the past five years. The major potential value for palladium is as a potential substitute for platinum in catalytic converters, where it takes two ounces of palladium to replace one ounce of platinum.

As palladium does not have attractive investment fundamentals, I do not follow it closely. Its price ended 2007 at $371. It rose as the price of platinum

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climbed early in 2008, hitting a peak of about $588 in March.

Major palladium sales by investment funds in the third quarter of the year knocked the price back down under $200. It has stayed within 20% of $200 since, closing 2008 at $204, down 45.0% for the year.

Even at the current lower prices for palladium, I am still not that interested in following the market. I remember years past when spot prices ranged from $75 to $1,000. I expect palladium to stay near the lower end of this trading range for the next several years.

Rare Coins: US Gold Coins did well in 2008, partly because of higher spot prices.

However, demand was also supported because of rising premiums for bullion-related gold coins. In some instances, the premiums on circulated $5 Liberties, $10 Liberties, $20 Liberties, and on $20 St Gaudens were so close to bullion that frustrated would-be bullion buyers opted to acquire some of these coins instead.

With many lower-premium US Gold Coins removed from the market, that left fewer available for collectors. As a result, premiums generally remained high on all US gold coins, even though the value of the gold content had increased.

We also saw the same occur with lower quality Morgan and Peace Silver Dollars, where frustrated would-be silver purchasers bought such coins at reasonable premiums compared to other "bullion" coins and ingots.

For several prior years, the rare coin market had been quite strong. At the beginning of 2007, I warned that this market would likely cool off. That happened in 2007 and again in 2008.

The US Large Size Paper Money market still rose in total, though there were several price drops among notes grading between Very Good and Very Fine. There were more price drops in our index this year than in any year since we created the index in 1988. I suspect that the US paper market generally is ready to stabilize.

A continuing weak sector of the market is US Gold and Silver Commemoratives. I think now is an excellent time to be buying, but it is difficult to find quality coins. Savvy collectors just are not liquidating at current bargain levels.

Last month, I alerted you that pricier coins, those above $5,000 were in the doldrums. I expect this to continue for the first half of 2009, then turn around (see my discussion below).

Summary: Overall, as you can see by the table on the front page, gold was one of the top performers in 2008 as it has been for eight years now. Silver did not do well, except that it actually was a much better performer than most items listed in the table. Rare coins certainly did better than the stocks, but I wouldn't brag about it.

Taking these and other factors into account, what do things look like for 2009?

Ten Fearless Forecasts For 2009

As bad as the financial news was in 2008, I expect things to get worse in 2009. The huge increase in the money supply that the US government has already created just about guarantees this.

One reason that I think the worst is yet to come is that people generally don't want to directly face how bad things really are. If someone can pretend that "the government will take care of it," then that justifies not taking personal responsibility for one's own welfare.

It has been the prevalence of this attitude over the past number of years that has contributed to the deterioration in the financial system. Instead of fixing problems when they were smaller, they were hidden or ignored and allowed to become major crises.

With this in mind, here are ten things I expect to occur in 2009.

1) Higher Stock Markets: Higher stock markets may not happen until the second half of 2009, but they will eventually turn around. There may be much lower prices before then.

This is not necessarily good news. One reason that I expect stock markets to rise is that the value of local currencies will decline. For example, if the value of the US dollar were to drop 25%, then the US stock markets would have to rise by 33-1/3% just for investors to break even! I don't expect higher stock prices to cover the decline in currency values in most countries.

2) Accelerated Displacement Of The US Dollar As The International Reserve Currency: The US dollar has fallen in value for many years, even though it did rise against most currencies in 2008. With accelerated inflation and virtually zero interest rates on US government debt, US dollars are becoming less attractive to foreigners.

In 2008, Hong Kong experimented with executing many international transactions with neighboring countries in Chinese yuan instead of US dollars. The results were promising enough that on Christmas Day the Chinese government announced that early in 2009 it will make a major effort to denominate transactions to denominate contracts with eight neighboring countries, including Russia, in Chinese yuan. If this works, expect even more pressure by China to displace the role of the US dollar as a de facto international reserve currency.

If the US dollar continues to lose its role as an international currency, which is virtually certain to happen, that will lead to a significant decline in the value of the dollar. I expect the US dollar index to fall to 65 or less in 2009.

3) Inflation, Not Deflation: There has been a lot of talk about deflation by people who don't understand the concept. Deflation is a declining money supply, which normally is followed by lower prices.

The drop in commodity prices in the past six months has nothing to do with deflation. The money supply in the US is rising much faster than at almost any time in the nation's history. Much of falling prices has to do with the global recession/depression.

By simply using the term deflation, the government can buy time before the effects of its inflationary actions affect the general public to any great degree.

4) Disappearance Of Perishable Consumer Goods: Once the general public understands what the US government has done to inflate the money supply, they will act to minimize the effects of inflation in their personal lives.

One way to do this is to get rid of all your currency and paper assets before they lose further value. Often, they are exchanged for the necessities of life.

By mid-2009, I expect to see the general public go on a buying spree to acquire things like food, medicine, and other essentials for survival. This rise in demand will spur prices to rise even faster, leading to higher demand to purchase perishable consumer goods.

If things get bad enough, I wouldn't be surprised if the government stepped in to ration such necessities.

5) Disappearance Of Gold, Silver, And Rare Coins: At the same time that people are scurrying to acquire perishable consumables, I expect a major surge in demand for gold and silver.

Because physical gold and silver are already in short supply, I expect these shortages will begin to develop by the end of April. If things get really bad, it may become pretty much impossible to acquire any precious metals by the end of 2009, no matter how much you are willing to pay in paper currencies.

With the disappearance of gold and silver bullion products, I expect people to then chase after "blue chip" rare coins as a somewhat close substitute. Since supplies of these coins are even more limited than bullion products, I

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expect to see shortages of US $5.00, $10.00, and $20.00 pre-1933 Gold Coins and of just about all grades of common-date Morgan and Peace Silver Dollars by the end of 2009. Of course, as these shortages appear, prices will shoot upward.

I then expect that higher demand will expand to other rare coins, especially those made of gold or silver.

I also expect affluent people to become more active in purchasing the more expensive rare coins as a way to store a lot of value in a minimum of space.

6) Restrictions On Civil Rights: In order to maintain control of the populace, I expect 2009 will bring more restrictions on civil rights. At the beginning of 2009, for instance, Australia and Canada implemented stringent documentation requirements on coin and bullion dealers to obtain the identity of purchasers of bullion-priced coins and ingots. I expect more nations to put such laws into place before year end.

Other areas where we might see reduced privacy and civil rights are in gun ownership, home schooling, and simply trying to live independent of government welfare programs. Already the US government has restrictions on access to health care for those who refuse to accept Social Security and Medicare benefits.

Generally, I expect to see an expansion of governments running people's lives and denying them the option to make choices independent of government interference.

7) Potential Attack On Private Retirement Assets: As I discussed in a recent issue, Congress held hearings in October on the "voluntary" nationalization of 401k retirement accounts.

This voluntary program is being offered as a guarantee of a citizen's assets. If implemented, it would be simple to make the program mandatory and cover all private retirement assets.

I expect to hear much more on this subject in 2009, though there may be enough opposition that it does not become law this year. However, the US government could tap so much wealth by this process that I think it is only a matter of time before it happens.

8) Major failures of private entities: If you think there were a lot of corporate and banking failures in 2008, you are bound to be astounded by how many more of them are likely in 2009.

Matters could get bad enough in the US banking industry that it is not out of the question for incoming President Obama to declare a bank holiday as President Franklin Roosevelt did shortly after taking office in 1933.

A few analysts think that JP Morgan Chase, AIG, and Goldman Sachs are suffering under so many billions of dollars of unbooked losses for their derivatives trading that the US government may already have effectively taken over one or more of these companies.

With a company like Chrysler seeing its product sales decline by more than 50%, how can it ever return to profitability to be able to pay off recent government loans?

Most major companies outside the financial industry have some potential for failure in 2009. Problems that may have caused only minor problems in the past will bring on a crisis in the current environment where credit is virtually unobtainable.

9) Incoming President Obama Will Become Hugely Unpopular: This forecast is not personal, because it would have happened to whoever became the US president on January 20, 2009.

The US economy and that of many other nations is in horrible condition, ultimately caused by government interference in the private sector. The temporary and painful cure is to remove such interference, which no politicians in a position to accomplish this are willing to even consider, much less do.

Instead, president Obama and Congressional leadership will continue increasing government interference in the private sector. Besides stealing people's wealth through higher inflation, I also look for higher taxes. Instead of hope and change, I look for more of the same of the worst government policies. The year 2009 will not be a good one for freedom in America.

10) Israel To Take Matters Into Its Own Hands, With A Backlash To Hit America: The election of president Obama was endorsed by a wide swath of terrorist groups and governments unhappy with the United States. During his campaign speeches, Obama implied that he would be less supportive of Israel than previous US presidents.

Israel is a small nation surrounded by unfriendly neighbors. It has pretty much experienced acts of war and terrorism since it gained statehood in 1948. The country has become highly self-sufficient at defending itself.

Now that it may receive less military support from the US, Israel has more incentive to take matters into its own hands. The current invasion of the Gaza strip is one example of what may happen elsewhere during 2009.

Any military actions by Israel will likely spark more terrorist attacks in response. You can just about guarantee that some of these attacks will affect America or Americans.

I'd rather not think how costly such conflicts could become—whether measured in lives, assets, or in civil liberties.

Contrary Opinions

There are those who forecast better days in 2009 than I do. For instance, Gold Fields Mineral Services (a major precious metals consultancy) and Barclays Bank both predict that the average gold price in 2009 will be less than it was in 2008.

Wise stock investors realize that some of the best times to be buying into a market is when everyone else is gloomy and inclined to sell. *Forbes* columnist Ken Fisher and Warren Buffett are two billionaires who think that the time is right to get into stocks.

Of course, Ken Fisher said the same thing a year ago and has taken significant losses along with everyone else. Warren Buffet invested $5 billion in Goldman Sachs a few months ago and has already lost over 25% of it.

I respect Fisher's and Buffet's investment acumen in general, but have to disagree with them this time around. In some ways I would much prefer that they were right. But I have to call things as I see them.

Silver and Silver Coins

Silver closed today at $11.28, up a huge $1.47 (15.0%) from five weeks ago!

After a buying lull (not an absolute lull but the slowest sales period of 2008) for several weeks in November and the first week of December, buyers returned over the past month. This is an unusual pattern in that bullion buying usually slows down during the two weeks before Christmas as people think about subjects other than their investments.

Two days ago we were offered the opportunity to purchase a lot of 500 newly manufactured 10 Oz Silver Ingots for the lowest premium we have been quoted in at least four months. We immediately snatched up the lot. Unfortunately, there is every possibility that the entire group will be sold before the readers of this newsletter have the opportunity to read of it here.

In my fearless forecasts, I did not make my projections for what I expect gold and silver to do in 2009. Here's what I see for silver.

Within a few years, I expect the gold/silver ratio to drop to around 35 to 40 range. With the ratio closing today at 74.9 that indicates that I expect silver will double the performance of gold from now into the future! That sounds

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right to me.

I have been overly optimistic about rising silver prices for several years. A year ago, I expected silver to reach $20.00 by March 10, which it did, but then gave the metal a high likelihood of reaching $30.00 before year end. As far as I can tell, every single knowledgeable silver market watcher missed predicting the dramatic fall in silver prices in the second half of 2008.

The recent unexpected decline does not alter my long-term expectation of silver reaching at least $50 per ounce and quite possibly $100.

For 2009, I fully expect silver to again reach $20.00, by the end of April at the latest. This time, the rising price of silver will be buoyed by obvious high inflation in the US. It may take a while, but I give a 50% chance that silver will exceed $30.00 before the end of 2009, whether or not it reaches $20.00 by the end of April.

There are too many potential pitfalls in buying silver in exchange traded funds or certificate form. For your own protection, I recommend buying physical silver and taking possession of it or having it stored in an independent depository under your own name. Under no circumstances should you leave it in the custody of the vendor from who you purchased it.

I find some appeal in the idea of holding some precious metals outside of the United States. However, Canada, Australia, Switzerland, and Germany have already or are looking at putting more government paperwork into the process of buying physical metals. I wouldn't be surprised to see other nations follow suit. While you might consider owning some precious metals outside your homeland, I think the advantage of having direct physical possession is more worthwhile.

For those who are storing precious metals in bank safe deposit vaults, I would recommend spreading your holdings among different non-affiliated banks. That way, if any particular bank is closed, you still might have access to the metals stored elsewhere.

Premiums on physical silver are still high enough that it is hard to get enthusiastic about any of them. US **40% Silver Coin** (6.5%) is reasonable in price, but it takes a lot of storage space to hold the 60% copper-nickel content of the coins plus shipping costs are much higher for the same silver content.

U.S. **90% Silver Coin** (22.7%) is the form I like best for most purposes. It is the most liquid, most familiar, and most divisible form of physical silver to own. But a year ago when the spot price of silver was above $15, 90% bags were selling for only about 10% more than they are today! As the spot price of silver rises, I expect premiums to fall. When silver reaches $20.00, I expect 90% bags to be selling for almost exactly spot, if not even a few cents less than that. Still, I wouldn't want to wait to buy silver at $20.00 when you can own it today for much less.

I don't recommend higher premium silver coins like U.S. **Silver Eagle Dollars** (44.3%). They are fun to own one or a few for a collection, but not as a way to own silver bullion.

The Month

Gold Range	132.00	17.1%
Net Change	+73.25	
Silver Range	2.02	20.6%
Net Change	+1.47	
Gold/Silver Ratio	74.9	
Net change	-3.8	
Platinum Range	203.00	24.6%
Net Change	+185.00	
Platinum/Gold Ratio	1.20	

Date	Gold	Silver	Platinum
Dec 03	771.75	9.81	825.00
Dec 04	767.75	9.74	818.00
Dec 05	754.00	9.65	807.00
Dec 08	772.50	10.19	863.00
Dec 09	777.50	10.07	834.00
Dec 10	812.00	10.42	854.00
Dec 11	830.00	10.64	865.00
Dec 12	824.00	10.45	842.00
Dec 15	840.50	10.79	860.00
Dec 16	846.75	10.87	874.00
Dec 17	872.50	11.59	889.00
Dec 18	864.50	11.29	885.00
Dec 19	840.50	11.02	873.00
Dec 22	850.25	11.02	871.00
Dec 23	841.25	10.43	861.00
Dec 24	851.00	10.52	870.00
Dec 25	closed		
Dec 26	874.50	10.70	905.00
Dec 29	878.50	10.98	936.00
Dec 30	873.25	11.15	930.00
Dec 31	886.00	11.47	950.00
Jan 01	closed		
Jan 02	881.25	11.67	961.00
Jan 05	859.75	11.45	970.00
Jan 06	868.00	11.62	988.00
Jan 07	845.00	11.28	1,010.00

London Silver Market Premium To New York Silver Market = 4¢

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

Gold And Gold Coins

Gold ended today at $845.00. That is up a huge $73.25 (9.5%) in the past month!

For 2009, I expect the price of gold to pass $1,000 to stay either in January, March, or April. I give gold an 80% chance of exceeding $1,300 by year end and a 35% chance of it passing $2,000 before then.

While premiums are still much higher than they were early last year, they have come down from a few months ago. Among my lower premium favorites are the Austria **100 Corona** (5.9%), U.S. **American Arts Medallions** (6.0%), **1 Oz Ingots** (5.7%), and Mexico **50 Peso** (6.5%). While I expected premiums to slip as the spot prices rise, they have a much smaller downside than does physical silver bullion coins and bars.

Delivery times are also improving from a few months ago. While you cannot necessarily expect to purchase quantities of any gold for immediate delivery, you should be able to find some that can be available within two weeks after payment..

In the past month, many **Common-Date U.S. Gold Coins** have jumped in price, many in line with the rising spot price. However, the more expensive coins such as higher Mint State Type 2 $1.00 Gold Indians, $3.00 Indians, and $5.00 Indians, are all down in price along with most other coins trading for $5,000 or more.

I expect Blue Chip U.S. Gold Coins like Common-Date Mint State $10s and $20s to become almost unavailable within a few months. Prices are almost certain to rise. Because of this, this month we are offering a modest group of **US Mint State $20.00 Liberty Gold Double Eagles From The 1870s.** These coins are much rarer than their prices would indicate. Please see our offer for details.

LCS's Technology Improvement

This week, LCS started using an upgraded invoicing system. Use of this system should improve accuracy and efficiency of processing your purchases. You will notice that our invoices will have a different look than those we used to use.

We still have a few kinks in the system to smooth out, but this should end up giving our traders more time to serve you and less time devoted to paperwork.

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