Liberty's Outlook

Volume 17 Issue 1 Liberty Coin Service's Monthly Review of Precious Metals and Numismatics January 12, 2011

Precious Metals Prices Strong In 2010! Look For Even Higher Prices In 2011!

Page 3: Ten Fearless Forecasts For 2011

Palladium, silver, and gold all increased by a greater percentage than all of the stock indices I tracked in 2010 (see table at the right). Even platinum outperformed all but the Russell 2000 index.

In 2010, palladium and silver were two of the top three performing commodities of those that I regularly track.

Precious metals prices had strong results in 2009. A year ago I said to expect even stronger results for gold and silver in 2010, which is exactly what occurred:

Metal	2009 Change	2010 Change
Silver	+54.8%	+83.8%
Gold	+23.6%	+29.7%

Even with such strong results for two consecutive years, I anticipate that both prices will increase by an even greater percentage in 2011 than in 2010! Before getting into the reasons why I am so optimistic about them (or so pessimistic about the future value of the US dollar), let's review what happened last year.

A Look Back At 2010

Gold: After closing 2009 at $1095.25, gold drifted to its 2010 low close of $1,052.25 on February 5. The last close below $1,100 occurred on March 25.

Though not in a straight line, gold generally edged upward over the course of the year. It exceeded $1,200 on May 7 and set a new all-time high closing price (ignoring inflation, of course) of $1,242.75 on May 12.

The price of gold again stabilized and did not set another record high until June 17. Gold hit a temporary record close of $1,257.25 on June 18 before eventually retreating under $1,200 through early August.

Gold returned above $1,200 to stay on August 12. It gradually built momentum and finally set another record high on September 14.

Gold set price records on several days in September, breaking through $1,300 on September 28. It exceeded $1,350 for the first time on October 11, followed by the first close above $1,400 on November 8.

After retreating as low as the $1,330s, gold regained $1,400 in early December. Prices closed above and below $1,400 for the balance of the month before ending the year at a new record high at $1,421.00!

The move of gold prices (and silver) can be tied to various events, mostly having to do with the US and other governments.

On March 25, the Commodity Futures Trading Commission (CFTC) held hearings about possibly setting limits on the trading of COMEX precious metals accounts. At those hearings, testimony was introduced on two significant subjects. First, Jeffrey Christian and Adrian Douglas stated that the London Bullion Market Exchange had only enough gold and silver in its vaults to cover 1-3% of outstanding contracts. The London gold and silver markets are the world's largest; in the- ory open contracts are 100% covered by pre- cious metals in the vaults.

The second bombshell was presented by Adrian Douglas from information he had just received from Andrew Maguire. Maguire claimed to be a former Goldman Sachs trader who learned about how the staff at the London office of JPMorgan Chase openly bragged that they acted to suppress silver

2010 Annual Results

Precious Metals		
Palladium		+96.3%
Silver		+83.8%
Gold		+29.7%
Platinum		+20.9%
Numismatics		
US MS-65 Morgan Dollar, Pre-1921		+8.0%
US MS-63 $20 St Gaudens		-1.4%
US MS-63 $20 Liberty		-18.5%
US Dollar vs Foreign Currencies		
Euro		+7.1%
Great Britain Pound		+3.6%
Hong Kong Dollar		+0.3%
China Yuan		-3.5%
India Rupee		-3.7%
South Korea Won		-3.9%
Brazil Real		-4.8%
Canada Dollar		-5.1%
Mexico Peso		-5.6%
New Zealand Dollar		-6.8%
Singapore Dollar		-8.7%
Switzerland Franc		-9.8%
South Africa Rand		-10.5%
Australia Dollar		-12.1%
Japan Yen		-12.8%
U.S. Dollar Index	79.028	+1.52%
US And World Stock Market Indices		
Russell 2000		+25.3%
NASDAQ		+16.9%
Frankfurt Xetra DAX		+16.1%
S&P 500		+12.8%
Dow Jones Industrial Avg		+11.0%
Dow Jones World (excluding US)		+10.1%
London FT 100		+9.0%
Sao Paulo Bovespa		+1.0% -
Australia S&P/ASX 200		2.6%
Nikkei 225		-3.0%
Shanghai Composite		-14.3%
10 Year US Treasury Note interest rate	3.299%	-14.0%
Intrinsic Metal Value Of U.S. Coins		
Lincoln cent 1959-1982		2.92¢
Lincoln cent 1982-date		0.62¢
Jefferson nickel non-silver		6.77¢
Roosevelt dime, 1965-date		3.01¢
Washington quarter, 1965-date		7.68¢
Kennedy half dollar, 1971-date		15.35¢

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prices and revealed the methods by which they did so. Maguire had been trying to bring this information to the attention of the CFTC Enforcement Division for several months without receiving any solid response.

The price of gold never again closed as low as it did the day before these CFTC hearings.

In the late summer, it became obvious that the US government was going to engage in a new round of inflation of the money supply (disguised by calling it "quantitative easing"). The value of the US dollar started to decline. The decline accelerated in early October after President Obama, Federal Reserve Chair Bernanke, Treasury Secretary Geithner and at least two other regional Federal Reserve Bank presidents all stated that a new round of quantitative easing would be started after the US elections in November. As the dollar declined, gold and silver rose.

There was a notable effort to suppress gold and silver prices in the two weeks before the elections. A falling dollar would not help incumbent politicians get re-elected, so there several pronouncements from top US officials claiming that it had not yet been decided that there would be a round of inflation of the money supply right after the election.

However, these efforts were largely derailed when CFTC Commissioner Bart Chilton issued a statement on October 26 alleging that the COMEX silver market prices had been fraudulently manipulated and urging that the perpetrators be prosecuted.

The very next day, the first two of a string of lawsuits were filed against JPMorgan Chase and HSBC for illegally suppressing silver prices. As the suits, now numbering at least 25, were filed, some expanded the scope to cover trading in the COMEX gold market. Some of the attorneys for plaintiffs are those who have won the largest settlements for their clients under the Sherman Anti-Trust Act, Commodity Exchange Act, and Investment Company Act.

The day after the elections, the Federal Open Market Committee announced the details of what it titled "Quantitative Easing II." Once the news became official, the dollar fell and precious metals rose.

The news would have been worse for the US dollar over the course of 2010 except for the series of financial crises in multiple European nations that use the Euro for their currency. First Greece and then Ireland ended up receiving bailouts. Financial pressures also affected Portugal, Spain, and Italy. At one point, Greek citizens were purchasing British Sovereigns from the Greek central bank at prices above $1,700 per ounce of gold content!

The weakness of the sovereign debts of these nations would lead to investors shifting their funds and investments out of the Euro. Although some assets were switched to gold and silver, the US dollar also earned heavy demand as a "safe haven" compared to the Euro.

An effort to enact legislation calling for an audit of the Federal Reserve was gutted and derailed by the Democratic leadership in Congress. This could turn out differently in 2011 as the sponsor, Rep Ron Paul (R-TX) is this year the chair of the House Monetary Policy Subcommittee of the Financial Services Committee. This committee has oversight of the Federal Reserve!

Silver: Silver finished 2009 at $16.82. The price quickly rose, topping $18.00 on January 6. After reaching a temporary peak of $18.78 on January 19, the price was clobbered. On February 5, the same day as for gold, silver reached it 2010 low close of $14.82.

Silver prices recovered slightly before the March 25 CFTC hearings. On March 24, silver closed at $16.63. By April 5 the price had jumped to $18.10.

After stabilizing above and below $18, silver rose above $19 on May 11. Silver reached another temporary peak the next day at $19.64, then was pushed down more than 10% by May 21.

Since June 16, the silver inventory stored in COMEX warehouses has declined from 119.5 million ounces to about 105 million ounces at the end of the year (and down to 104.1 million ounces on January 12, 2011). It took a while for many people to perceive this trend, though I discussed it in the June 28 issue of *Liberty's Outlook*.

Silver did not reach another 2010 high close until September 8, when it settled at $19.91. On September 13 it closed above $20 and has not been below that level since.

Silver passed $21 on September 22, $22 on October 1, $23 on October 6, and $24 on October 14.

On November 3, when the spot price of silver closed at $24.43, I boldly predicted a greater than 50% chance that silver would exceed $30 by the end of the month!

Silver did end up at $28.19 on November 30, more than 15% higher than when I made my short-term prediction. However, silver did not trade intraday above $30 until December 7 or settle above $30 until December 28. Silver finished 2010 at $30.91, its highest close (ignoring inflation) since early 1980.

Platinum: Platinum ended 2009 at $1,471. Like silver, it quickly rose early in 2010, surpassing $1,600 on January 14. And like gold and silver, platinum had its low close of the year on February 5 at $1,475. Platinum's price ranged from $1,500 to $1,750 for most of the rest of the year, not closing above $1,800 until it reached $1,810 on November 9. This proved to be the year's high. Platinum has not closed below $1,700 since December 1 and ended 2010 at $1,778.

Palladium: Since palladium ended 2008 at $204, it has been the top performer of the four precious metals. It finished 2009 at $409 and closed on December 31, 2010 at $803. While this is spectacular, palladium is still far short of its all-time high price of around $1,100.

2010 Commodity Track Record

According to the Federal Reserve Bank's Federal Open Market Committee, the rise in consumer prices is so low that it is might be necessary for the US government to inflate the money supply. Just look at the 2010 annual change for the following commodity wholesale prices I regularly track. The precious metals, copper, nickel, and zinc are tracked through December 31,2010, while the other commodities use December 29, 2010 closing prices for the analysis.

Palladium	+96.3%
Hominy feed	+86.0%
Silver	+83.8%
Hogs, Sioux Falls	+62.6%
Wheat, hard KC	+59.7%
Corn, #2 yellow	+59.2%
Tallow, edible	+53.3%
Oats #2 Minneapolis	+45.0%
Corn oil, crude wet/dry mill	+41.4%
Sugar, raw cane	+41.0%
Lard	+41.0%
Sorghum, (Milo) #2 Gulf	+38.9%
Nickel	+35.0%
Copper	+32.6%
Soybeans, #1 yellow	+31.3%
Gold	+29.7%
Butter, AA Chicago	+24.5%
Crude oil, Brent	+22.2%
Platinum	+20.9%
Beef, choice	+19.7%
Gasoline, conv reg NY	+18.4%
Eggs, large white Chicago	+17.2%
Aluminum	+10.5%
Broilers, dressed A	+3.0% -
Zinc	5.3%
Cheddar cheese, bulk Chicago	-8.3%
Cottonseed meal	-16.2% -
Natural gas	28.2%

With price changes like these, it's difficult to believe the Fed's contention that consumer price increases are so low that there will be no increase in Social Security benefits in 2011 and that the government needs to inflate the money supply!

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Part of the strength in platinum and palladium in the past year or so has been the anticipation that the opening of exchange traded funds for the two metals would somehow shift the surplus supplies of these metals into deficits. That may be part of the explanation thus far, but I'm just not as enthusiastic about future prospects for them as I am for gold and silver. Platinum supplies have exceeded industrial demand about half of the years in the past decade. Palladium supplies have exceed industrial demand by substantial amounts every year for the past decade.

Rare coins: I'm going to have to push back my more thorough annual analysis of several areas of the numismatic market until next month as we were so busy I did not have time to update my various indices.

Classic US Gold Coins did rise over 2010 from the influence of rising gold prices. However, the premiums at which they traded above metal value mostly declined. What that means is that they did not keep pace with the percentage increase in the price of gold.

Part of the reason for this poor performance is that there were significant marketing campaigns for Classic US Gold Coins in the last few months of 2009. In early December 2009, the premiums has risen so far that I recommended that such coins be sold or swapped for bullion gold. That advice was right on target.

One bright spot in the numismatic market appeared toward the end of 2010. **High Grade Common-Date and Better-Date Morgan and Peace Silver Dollars** have enjoyed strong collector demand over the past few months. Supplies have dried up and prices are rising. However, prices were stagnant for much of the year, even while the spot price of silver rose. As a result, part of the popularity of these coins is that higher spot prices have pushed up prices for circulated issues. Now that you are having to pay well over $25 per coin for even average circulated common-date Peace and 1921 Morgan dollars, levels much higher than Mint State specimens were retailing for a year ago, the higher grade coins are enjoying their strongest demand in several years. I actually like the prospects for just about any grade of Morgan and Peace Dollars, from junk to top-of-the-line. If the price of silver does rise anywhere near as much as I expect in 2011, prices for these coins will almost have to match or outperform the spot price.

Summary: Precious metals, as a group, were among the top performers against almost any other possible investment. Now, before I go on to discuss what I expect in 2011 let me review how my forecasts from last January turned out.

How Did Last Year's Forecasts Turn Out?

Of my ten forecasts of a year ago, four were right on target. Stock market prices in the US and most of the rest of the world were higher. A study released in the past month indicates that most of the increase in the US stock markets was attributable to manipulation tactics of the US government. Over 2010, more Americans pulled back from US stock investments, preferring to avoid stocks altogether or else investing outside of the US instead. However, money funneled by the US government through its trading partners had the effect of holding up the prices of stocks which heavily influenced the resulting stock indices.

I was also on target in expecting further restrictions on civil rights and an electoral backlash this past November, the continuing decline in commercial and residential real estate prices, and the continuation of efforts by the US government to seize private retirement accounts.

I would argue that I was right on my prediction that consumer prices would increase by the greatest percentage in several years. According to the US Bureau of Labor Statistics, I was absolutely wrong. However, just look at the chart on the previous page on wholesale price changes in 2010 and you decide.

I was flat out wrong on two predictions. The US dollar did not end up falling sharply in value in 2010. It would have, but for the Euro-zone financial crises. There was also very little news following up on some 2009 reports of counterfeit 400 ounce gold bars. I had anticipated confirmation of the counterfeits would lead to soaring demand for smaller size gold coins and ingots. Demand for physical gold was strong, but not for this reason.

The other three predictions are subject to interpretation. I anticipated more major failures of private entities. The number of failed US banks were the highest in almost 20 years, but there weren't any bankruptcies on the scale of Bear Stearns, Lehman Brothers, or Enron. The troubles over the sovereign debt of several European nations did not involve private entities directly. My expectation that the US would become further embroiled in civil wars in Pakistan, Yemen, and elsewhere have not increased to the degree I thought. Last, my expectation of an increase in terrorist attacks on the US did not occur as much as I anticipated.

Although I would not grade my forecast results very high, they formed the basis upon which I predicted that gold and silver prices would rise by higher percentages in 2010 than they did in 2009. So, the ultimate forecasts were on target.

Six months ago, I anticipated a strong likelihood that gold and silver prices would be much stronger by the end of September. That did not occur until November. In early November I thought there was a good chance that silver would reach $30 by the end of the month—and missed by seven days!

The general lesson I take from these intra-year forecasts is that my sense of the market direction was on target, but the much trickier task of short-term timing was a bit off.

Still, those who took action on the basis of my predictions fared well in 2010.

Now, let me go on to make a new set of predictions.

Ten Fearless Forecasts For 2011

1. Gold and silver prices will rise by a higher percentage in 2011 than they did in 2010. If any of the lawsuits against JPMorgan Chase or HSBC (including one that is also suing the SLV silver exchange traded fund) for illegal manipulation of the silver and gold markets result in the disclosure of any damning details, gold and silver prices will go nuts.

On January 10, 2011, US District Court Judge Ellen Segal Huvelle ordered the Federal Reserve to produce documents for her inspection by January 14 as part of the lawsuit filed by the Gold Anti-Trust Action Committee (GATA) seeking compliance with their Freedom of Information Act request for documents disclosing the Fed's gold swap activities and arrangements since 1990. While this order does not necessarily indicate that GATA will win this suit, it does demonstrate that the judge has some skepticism over the Fed's claims. Should any documents be released that proves the Fed lied about its claims of not swapping any of the US government's gold reserves, precious metals prices will soar.

Rep. Ron Paul (R-TX) is now the chair of the House Monetary Policy Subcommittee of the Financial Services Committee. This committee has oversight of the Federal Reserve. Rep. Paul plans to pursue his effort for legislation to audit the Fed and determine the exact status of the claimed gold reserves. This effort was supported by most members of Congress last time around, but was blocked by the Democratic leadership. If successful and an audit casts any doubts on the accuracy of the US governments gold holdings, prices will take off.

2. Worldwide currency wars. Despite pretenses otherwise, worldwide

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currency wars are already underway. They will become blatant in 2011. The G-20 Group of Nations had a special meeting in South Korea last November to try to forestall the conflict. The only thing accomplished was an agreement to meet again in six months to try to reach an agreement.

I expect that every attempt to achieve international agreements to prevent currency wars will either fail or will not be worth the paper on which they are written.

Japan's government has already announced that it will not sacrifice its domestic economy to support the paper currencies issued by other countries.

The nature of the currency wars are for each country to try to devalue their currencies by a greater percentage than other countries. As the value of the US dollar was sinking in October and November, several South American countries intervened to try to prevent their own currencies from appreciating against the dollar.

It is entirely possible that the Euro nations may become so fragmented between those that are economically sta- ble and unstable that there could be an alteration of the Euro zone, where some countries are pushed out. Alternatively, the Euro may eventually fail.

3. Highest official consumer price increases in several years. The US government has played many tricks over the decades in reporting the change in consumer prices, all with the purpose of holding down the reported increases. Announcements of price increases are coming so fast and furious that I don't see how the data can help but increase in 2011.

4. Higher interest rates. Consumers and investors are not blind and dumb. They will observe the devaluation of their currencies and demand higher interest rates for holding bonds and savings accounts. The interest rate on 10-year US Treasury debt has increased by more than 30% since early October. Look for it to get even higher in 2011.

5. Continued softness in residential and commercial real estate demand, with lower prices. In 2010, the US government subsidized the purchase of homes for a few months. That turned out to not help the market revive. Instead, it merely accelerated some transactions by a few months.

One side effect of the current round of quantitative easing has been the rise in mortgage interest rates. As the interest rates rise, that means that potential buyers will have to pay a lower price for their homes in order to end up with the same size of mortgage payment. The same goes for businesses looking to acquire commercial property.

Weakness in the real estate market will be one of the two most important factors preventing an economic recovery in the US in 2011.

6. Massive job losses among state and local government employees. There has been almost a complete unwillingness to confront the reality that state and local governments, which are required to have balanced budgets, have experienced such a decline in tax collections that they will be forced in 2011 to slash budgets to the bone. In the process, I expect at least one million government employees, including a high percentage who are unionized, to lose their jobs by the spring of 2012.

The cutbacks in government functions will affect the public. The rise in unemployment will create further hardships for the economy. I expect this to be the other important factor preventing a US economic recovery in 2011.

7. Disclosures of secret deals between the Chinese and United States governments. Despite all the political attacks, the governments of China and the US are both dependent on the well-being of other.

The US government needs to borrow trillions of dollars to fund budget deficits, and the Chi- nese are the largest source of such funds. Over the past year, the Chinese have reduced their total holdings of US government debt, but they could have reduced it much more.

In return, the Chinese need the US to hold up the value of the US dollar simply because of the trillion dollars of US debt that they hold. If the US dollar were to drop in value by 10%, that would cost the Chinese government $100 billion in addition to reducing future demand for Chinese exports.

I have a sneaking suspicion that, in return for the Chinese not dumping a lot more US government debt, the Chinese have extracted promises or guarantees from the US government to either cover or otherwise compensate for any Chinese losses from a possible decline in the US dollar. As much as the US government is in debt, it has a relatively weak bargaining position—and the Chinese know it. If there are such agreements and they become public knowledge, expect a significant political backlash in the US.

8. More major failures of private entities. There are repeated rumors that significant enterprises are on the brink of bankruptcy, such as Bank of America. Should the lawsuits proceed poorly for them, both JPMorgan Chase and HSBC could be in peril to such an extent that I would expect the US government to rescue them.

Although many publicly traded companies have improved their balance sheets and are enjoying higher profits, there are still a number of dead companies that have not yet gone into bankruptcy. I anticipate that several of them will not be able to hold on until the end of 2011.

9. At a minimum, Section 9006 of Obamacare will be repealed. This obscure provision in the health care legislation enacted in March 2010 would require, starting in 2012, all 34 million businesses, non-profits, and government agencies to file 1099 forms with the IRS for any purchases of goods for services totaling $600 or more from one party over the course of a calendar year.

The burden this reporting requirement would impose on businesses is so onerous that even the IRS is complaining, saying that it would have to hire an additional 16,000 employees to handle the extra paperwork. Of course, with millions of businesses required to collect confidential tax information from so many parties, you can be sure that identity theft would soar. The public raised so much clamor over this provision in the past few months that even the president stated in his address the day after the November elections that this would have to be resolved. There were multiple attempts by both Democrats and Republicans to repeal this provision over the past several months, but neither party would allow the other party to claim credit for the repeal. As of this moment, almost everyone in Washington is pushing for repeal, but it just has not happened yet. Look for it to be history by the end of this year, before it ever takes effect.

10. The continuing risk of government "confiscation" of private retirement accounts. The first US government discussion about the seizure of private retirement account assets occurred shortly after the first election of Presi- dent Clinton, when the Democrats con- trolled both chambers of Congress. The plans were shelved when the Republicans gained control of Congress after the 1994 elections.

Further consideration of the idea did not occur until late in 2008, when it became obvious that the Democrats would again take control of both chambers of Congress and that a Democrat would again be president. Hearings were held in September 2010 to consider plans to require private retirement plans to offer retirees an option to convert their assets into an annuity upon leaving the workforce. This is the first of several steps planned to gradually lull the public into accepting government seizure of private retirement assets.

Now that the Republicans have regained a majority in the House of Representatives, I suspect that further progress on nationalizing private retirement accounts will be slowed, but will not

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stop entirely. The federal government is just too desperate to get their hands on any source of funding and these accounts hold trillions in assets that would be easy pickings.

My suspicion is that the Republicans will eventually support an alternative first step of establishing mandatory retirement accounts that will be required to hold US government bonds. This will be touted as a way of covering workers who now have no retirement accounts at all, but will really be done so that the feds can get their hands on the assets in such accounts.

Where Are We Headed In 2011?

It is much easier for me to project where I think gold and silver will be at the end of the year than to forecast intermediate moves. So much depends on just what news breaks and when it comes out.

So, for the end of 2011, I expect more than a 50% chance that gold will exceed $2,000 and silver will top $55. There is some prospect that both of these numbers could be way too conservative. Gold at $3,000 or more and silver well over $100 are not out of the question.

I see virtually no chance that either price will end 2011 lower than it started the year. At the minimum, I would expect gold to exceed $1,600 and silver to top $40.

There is a huge demand for physical gold and silver right now, especially from the Far East. While the trading of paper contracts for gold and silver is many times the volume of physical activity, it is ultimately the physical markets that will set prices. It would not surprise me to see a two-tier market develop this year, where physical gold and silver is worth a much higher price than the paper contract "spot" price.

Just from what I see right now, it looks like there will be some severe physical supply shortages for both metals hitting the market by late February into March. Accordingly, I anticipate some early fireworks in 2011. We may not have to wait until near the end of the year to see huge price gains.

The Rest Of The World Is Starting To Catch Up To Me

The subjects I have been talking about are starting to get more attention from the mainstream media. It feels like the rest of the world is starting to catch up to me. Let me share with you three recent examples.

An episode of the "Antiques Roadshow" television program that was broadcast in our area within the past week included a segment on consumer tips on how to obtain higher prices if you are looking to sell your gold jewelry. All of the points raised were contained in my June 16, 2010 column at http://www.coinupdate.com titled "Thinking Of Selling Your Gold Jewelry? Watch Out For Gold Buying Tricks And Scams." Actually, my column has a far more comprehensive list of consumer protection tips than appeared in the television show. You can find it on the CoinUpdate website by clicking on "Patrick Heller" under the author's listings at the bottom of the home page, then scrolling back far enough to find this column.

In late December, *The Wall Street Journal* carried a front page article about the strong performance of silver in 2010. It was co-authored by the reporter who quoted me in another *Journal* article on gold that also appeared on the front page in late September. This article noted that investment demand for silver was unusually strong in 2010, but never asked the question why this had occurred. If you have been reading my newsletters and columns for some time, you already know why. And you also knew about the strong performance of the silver price in 2010 long before you read about it in the *Journal*.

Peter Schiff is CEO and Chief Global Strategist for Euro Pacific Capital. He has an amazing understanding of just what is happening with financial and economic matters and regularly writes and speaks about them.

Within this past week he came out with a column suggesting that virtually everyone avoid the ownership of rare coins and paper money. He raised many practical points that I have previously mentioned in this newsletter and in several of my consumer protection articles posted elsewhere.

His basic point was that if you wanted to own gold and silver as protection against the world's current financial calamities, then don't purchase rare coins to accomplish that goal. That is abso- lutely correct, and is reflected in my summary of recommendations (see the above box).

Schiff gets his essay about 90% correct. I will discuss my differences with his thoughts when I devote more space to discussing the numismatic market next month.

Silver and Silver Coins

Silver settled today at $29.53, up a solid $1.14 (4.0%) from six weeks ago.

Silver reached its highest close since early 1980 when it ended at $31.10 on January 3. This was the same day that gold set its most recent all-time high close (remember, ignoring the effects of inflation).

With silver threatening to break upward, the US government and its trading partners went into serious attack to suppress the price. By January 7, silver closed at $28.66.

There have been several days in the past month or so where the silver price has ranged more than $1.00 between its daily low and high. Going into the future, I expect daily volatility to be even more extreme.

Even though the price of silver has increased more than 550% over the past nine years, it has not and never will be a smooth ride. Even in the past two years of huge gains there were at least two episodes each year where spot prices dropped at least 5%. This will undoubtedly occur again in 2011.

If, as I expect, we are still in the early stages of the next gold and silver boom market, look at these dips as buying opportunities rather than worrying that the market has peaked. There are so many mainstream writers proclaiming that precious metals prices are now in bubbles that this is one of the best indicators that prices have a long ways to run yet. We will not reach a peak until almost everyone is convinced the prices can only go up from current levels. I don't expect this to happen for one to four years yet.

The US Mint sold well over 30 million 2010 dated US **Silver Eagle Dollars** (9.8%). The Mint raised the premium 50 cents per coin in late 2010 to reflect the huge rise in the spot price. I still anticipate another premium increase

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Summary Of Current LCS Recommendations For Precious Metals and Rare Coins

How much of your total net worth should be in precious metals and rare coins?

Conservative	Moderate	Aggressive
10%	20%	25-33%

How much to allocate for each category of precious metals and rare coins?*

	Conservative	Moderate	Aggressive
Gold	40%	35%	25%
Silver	60%	55%	50%
Rare Coins	0%	10%	25%
TOTAL	100%	100%	100%

*Platinum and palladium both have volatile markets with long-term supply/demand fundamentals that are not as attractive as those for gold, silver or rare coins. While either or both might outperform gold, silver, or rare coins in the short- to long-term, to be conservative we have omitted them from our allocation.

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sometime in 2011. If you must own some of these coins, I suggest you pick them up now.

However, I don't recommend purchasing large quantities of Silver Eagles as a way to own silver bullion. They are simply far more expensive than alternative choices such as US **90% Silver Coin** (1.8%). I see no practical reason to pay an extra $2.35 per ounce to buy silver in the form of the Eagles, when 90% Coin has several advantages such as greater liquidity, more divisibility, and is much more widely traded form.

By the way, the premium on 90% Coin dipped as low as 1.3% early last week. At the time, the refineries were backlogged with silver to melt down. The refineries are now catching up and premiums on 90% Coin have risen. I would not be surprised to see them rise further over the next two months.

Over the past few decades, the premiums for **Very Good or Better circulated Peace and 1921 Morgan Silver Dollars** (14.3%**)** have tended to range from 30-100% above silver value. With the steep increase in silver over the past two years, the premiums have fallen to their lowest levels in 30 years. I would actually be tempted to recommend owning these genuine collector coins, all over 75 years old, even though they cost more per ounce of silver content than the Silver Eagle Dollars. Collectors have taken notice of the low premiums, so you may have some difficulty finding ready supplies.

Rising prices for circulated Silver Dollars also means that prices for uncirculated coins are on the rise. To give you the best opportunity to get in on the ground floor of **High Grade Better Date Peace Dollars**, we have decided to offer our current stock this month rather than risk price increases while we seek additional quantities. Please see our enclosed flyer for details.

Gold And Gold Coins

Gold closed today at $1,385.25, down $2.00 (0.1%) from last month.

As with silver, gold reached a record price of $1,422.50 at the close on January 3. Price suppression tactics knocked down the price 3.8% four days later.

Also like silver, I expect prices to quickly rebound.

There are no significant changes in the premiums of bullion-priced gold coins and ingots. Almost everything but the US **Buffalo** (8.3%) are in ready supply.

My previous recommendation about selling your China Gold and Silver Panda coins to take advantage of strong markets may now be a past opportunity. A wholesaler friend of mine says that only the exceedingly low mintage issues (say a few hundred pieces left or less) are still in demand. More common issues are plentifully available, but no one is willing to pay prices at which they recently traded.

My low premium favorites for physical gold continue to be the US **American Arts Medallions** (3.7%), the Austria **100 Coronas** (3.7%), and the Mexico **50 Pesos** (3.8%).

There are several states that tax business inventories on hand as of December 31. Because of this, rare coin wholesalers in such states try to deplete their inventories in advance of that day. It is not uncommon for prices of **Classis US Gold Coins** to decline as we get towards the end of a year. Normally prices start to recover within a week or so in the next year.

As normal, most Classic US Gold Coin prices fell in late December. However, because of falling spot prices last week, we have not yet experienced a recovery in prices. Although I don't recommend acquiring such coins as a way to own bullion gold, some are at quite reasonable premiums today.

The Month

Gold Range	53.00	3.8%
Net Change	-76.00	
Silver Range	2.71	9.5%
Net Change	+1.14	
Gold/Silver Ratio	46.9	
Net change	-2.0	
Platinum Range	126.00	7.5%
Net Change	+117.00	
Platinum/Gold Ratio	1.30	

Date	Gold	Silver	Platinum
Dec 01	1,387.25	28.39	1,684.00
Dec 02	1,388.50	28.54	1,713.00
Dec 03	1,405.50	29.24	1,729.00
Dec 06	1,414.25	29.70	1,727.00
Dec 07	1,408.25	29.75	1,705.00
Dec 05	1,382.50	28.22	1,681.00
Dec 09	1,392.00	28.79	1,679.00
Dec 10	1,384.25	28.58	1,675.00
Dec 13	1,397.25	29.60	1,697.00
Dec 14	1,403.50	29.76	1,714.00
Dec 15	1,385.75	29.23	1,704.00
Dec 16	1,370.50	28.76	1,699.00
Dec 17	1,378.50	29.11	1,699.00
Dec 20	1,385.50	29.34	1,711.00
Dec 21	1,388.25	29.38	1,722.00
Dec 22	1,386.75	29.37	1,736.00
Dec 23	1,380.00	29.31	1,728.00
Dec 24 closed			
Dec 27	1,382.50	29.23	1,741.00
Dec 28	1,405.25	30.30	1,757.00
Dec 29	1,413.00	30.68	1,760.00
Dec 30	1,405.50	30.49	1,749.00
Dec 31	1,421.00	30.91	1,778.00
Jan 03	1,422.50	31.10	1,778.00
Jan 04	1,378.50	29.49	1,747.00
Jan 05	1,373.50	29.17	1,734.00
Jan 06	1,372.00	29.11	1,732.00
Jan 07	1,368.50	28.66	1,738.00
Jan 10	1,373.75	28.85	1,738.00
Jan 11	1,384.00	29.49	1,770.00
Jan 12	1,385.25	29.53	1,801.00

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.

Use Facebook To Keep Up With Heller's Writings, Interviews, Radio Programs, And Speeches

In late November, I finally stepped further into the electronic age by setting up a Facebook account. The primary purpose in doing so was to provide a venue whereby my "friends" could receive constant updates on my writings as they appear, on my television, radio, and newspaper interviews, my weekly radio programs, and speeches that I give. Much of this information is available at www.libertycoinservice.com, but on a more delayed basis.

By the way, in December 2010, my first bimonthly column appeared in *The Greater Lansing Business Monthly.* My articles there cover collectibles in general, with an emphasis on rare coins and precious metals. The title of the first essay is "If You Are Thinking Of 'Investing' In Collectibles—Don't!" You can find these columns posted at http://www.lansingbusinessmonthly.com where you select the Articles button, then the Department Columns choice, and finally Collectibles.

In order to view these postings, you will have to become my friend on Facebook. Search for Patrick Heller. There are several of us on Facebook. I'm the one wearing glasses and a tie, with a black background. The picture is of my head and top of my shirt. My head is tilted slightly toward the side of the computer screen. If you send a friend request, please add a comment that are a customer or reader of my writings so that I don't ignore you as one of the scammers. Thank you.

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