Liberty's Outlook

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Volatile Markets In 2011! Look For Greater Volatility In 2012!

Silver Falls 9.8% For The Year, But Averages 74% Higher Than 2010 Average!

Page 4: Ten Fearless Forecasts For 2012

In 2011, the price of gold rose 10.2%, the 11th consecutive calendar year increase. However this was a smaller percentage than the average of the prior ten years.

Silver, palladium and platinum all fell for 2011, though all three finished well below their intra-year highs.

I had expected both gold and silver to end 2011 at much higher levels, with gold closing above $1,843 and silver more than $56 per ounce. Gold did surpass that level a few months ago, but did not sustain that achievement.

At the end of April, the price of silver was up about 60% for 2011, so I looked good then in predicting that silver would rise more than 80% for the year. It wasn't to be. Silver's price at the end of 2011 was almost exactly half of what I projected.

The obvious question to ask is if I was totally off-base or if I am generally correct on direction but off on my timing.

Several times over the past few years gold and silver prices have reached targets I projected, but not until shortly after the time I stated.

In evaluating what happened in volatile markets in 2011, I believe that my targets are still valid, but it may take as long as the end of May 2012 before gold and silver reach the levels I projected for the end of 2011. To understand why, lets look at just what occurred last year.

2011 Annual Results

Precious Metals		
Gold		+10.2%
Silver		-9.8%
Palladium		-18.3%
Platinum		-20.9%
Numismatics		
US Proof Silver Eagles, 1986-1998		+20.2%
US Silver Proof Sets, 1950-1964		+12.5%
LCS US Invest Blue Chip Coins ID		+10.6%
LCS US Collect Generic Coins Idx		+10.3%
US MS-63 $20 St Gaudens		+6.3%
US MS-65 Morgan Dollar, Pre-1921		+1.9%
LCS US Invest Better Date Coins Idx		+1.7%
US Large Size Paper Money Index		-2.7%
LCS US Collect Key-Date Coins Idx		-4.9%
US Non-silver Proof Sets, 1968-98		-8.7%
US MS-63 $20 Liberty		-9.1%
US Dollar vs Foreign Currencies		
South Africa Rand		+22.0%
India Rupee		+18.6%
Mexico Peso		+13.0%
Brazil Real		+12.4%
South Korea Won		+3.5%
Euro		+3.2%
Canada Dollar		+2.4%
Singapore Dollar		+1.1%
Great Britain Pound		+0.4%
Switzerland Franc		+0.3%
New Zealand Dollar		+0.1%
Australia Dollar		+0.1%
Hong Kong Dollar		-0.1%
China Yuan		-4.2%
Japan Yen		-5.3%
U.S. Dollar Index	80.26	+1.56%
US And World Stock Market Indices		
Dow Jones Industrial Avg		+5.5%
S&P 500		+0.0%
NASDAQ		-1.8%
Russell 2000		-5.5%
London FT 100		-5.6%
Australia S&P/ASX 200		-14.5%
Frankfurt Xetra DAX		-14.7%
Dow Jones World (excluding US)		-16.4%
Nikkei 225		-17.3%
Sao Paulo Bovespa		-18.1%
Shanghai Composite		-21.7%
10 Year US Treasury Note interest rate	1.878%	-70.9%
Intrinsic Metal Value Of U.S. Coins		
Lincoln cent 1959-1982		2.26¢
Lincoln cent 1982-date		0.49¢
Jefferson nickel non-silver		5.12¢
Roosevelt dime, 1965-date		2.32¢
Washington quarter, 1965-date		5.80¢
Kennedy half dollar, 1971-date		11.61¢

A Look Back At 2011

Gold: After closing 2010 at an all-time record high of $1,421.00 (ignoring inflation), gold's price drifted for the first few months of 2011.

Gold hit its low close of the year on January 27 at $1,318.50. It did not closed above $1,450 until April 5. With the price of silver shooting upward, gold came along for the ride, closing above $1,500 for the first time on April 21.

Gold settled at a temporary peak of $1,557.00 on May 2. The price stagnated as silver fell from its peak at the end of April, but never closed below $1,480 since then.

On July 22, gold closed above $1,600 for the first time. It passed $1,700 on August 8, then $1,800 on August 18. Gold rose all the way to a close of $1,897.00 on August 22, its highest US close for the year. It then dropped over the next two days all the way down to $1,751.25.

With crazy volatility, gold jumped to $1,856.00 on September 9, actually exceeding $1,900 during trading that day. But, by September 26, gold closed all the way down to $1,600.50.

Gold enjoyed one more significant rise for the year, settling above $1,700 every day from late October into early December.

Once again, the price of gold was driven down toward year end, closing at $1,540 on December 29 and settling at $1,565.75 on December 30.

The price of gold is perhaps best understood if you realize that the value of an ounce was still worth that same all year long—as measured in gold. The volatility had to do with fluctuations in the value of the US dollar over the course of 2011.

The financial crises in Greece, Italy, Spain, Portugal, and Ireland all deteriorated further in 2011. As a result, the value of the Euro, which is used in all five of these nations was

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volatile. When a new crisis appeared, the Euro would fall and the dollar would strengthen. When the crises in Europe appeared to be nearing solutions, the Euro would tend to rise and the dollar would come back down.

By year end it was obvious to pretty much everyone that the Euro, which is a currency used in common by 17 nations, was near the point of at least a partial break-up and possibly as bad as a collapse of the monetary system.

As part of the problems with the Eurozone governments, major European and US banks suffered hundreds of millions (and probably billions) of dollars of losses on sovereign debts issued by Greece (in particular) and Italy, Portugal, France, and other governments. There was growing civil unrest in the nations where governments were trying, mostly with little success, to cut expenditures.

Financial matters were equally as bad in the US. The unemployment rate remained all year above what President Obama had previously stated would be the worst it might get. Consumer prices, using the methodology used by the US government a couple of decades ago, rose about 10% for the year, though the Bureau of Labor Statistics pegged it officially at 3.4% from November 2010 through November 2011.

The residential real estate market remained weak, with banks becoming less aggressive at foreclosing on properties that were in default.

Congress, with the Republicans in the majority in the House of Representatives and the Democrats in the majority in the Senate, almost ground to a standstill. It failed to pass complete budgets, pushed the federal government to the brink of partial shutdowns, and couldn't even agree on extending an expiring tax law by as much as one year (where the compromise agreement only lasts for two months!).

In 2011, the prices of safe haven assets like gold and silver should have soared on all this terrible financial news. They did not.

All year long, the US government, its trading partners, and allies engaged in ever more blatant price suppression tactics. It became so obvious that it was easy to pick up the signals. First, if the HUI Index of gold mining company stock prices fell noticeably during a day when there was no actual news to account for the decline, that was a sign that the spot price of gold was going to be knocked down the next day.

On days when the price of gold was either suppressed or price rallies were capped, the attacks on the price regularly occurred at the following Eastern time zone times: at 3:00 AM as the London markets opened, at 8:20 AM when the COMEX opened, at 10:00 AM to influence the London PM fix, at noon, and after 2:00 PM when the electronic aftermarkets begin trading.

Another sign of market manipulation is that price drops where fast and sharp, which is not how gold or other commodities are sold by parties seeking to realize the highest possible prices for what they are selling. If an owner wants to sell a market-influencing quantity of a commodity at the maximum price, they tend to spread their sell orders over time among multiple brokers. This disguises the size of the overall transaction.

Another frequent occurrence that indicated market manipulation were negative lease rates for both gold and silver. Yes, that means that they lender was not only charging no interest to the borrower of the gold or silver, they would also pay a fee to the borrower! Such tactics are done when "someone" is trying to make it appear that there is more physical metal available than there actually is.

Finally, although it is not necessarily the result of price manipulation tactics directly, but is a result when a genuine physical supply shortage exists the gold and silver futures markets, both metals spent much of 2011 in backwardation. This occurs when there is a shortage of the physical commodity to deliver immediately so that the prices of the spot month contracts rise higher than some or all of future month contract prices.

By the way, market manipulation was not limited to just the precious metals markets. Private investors were aggressively getting out of the stock markets in 2011. For 34 of the last 35 weeks of 2011, for instance, mutual funds reported a net outflow of investor money. When this happens, stock prices tend to fall as the funds must liquidate assets to generate cash to pay off investors. However, as you can see in the table on the front page, the Dow Jones Industrial Average was rigged by the President's Working Group on Financial Markets (also known as the Plunge Protection Team) to stay above 12,000 for the last several months of 2011. No other major US or international stock index was positive for the year.

Silver: Silver finished 2010 at $30.93. The white metal also drifted generally downward early in 2011, getting all the way down to $26.81 on January 25.

The prices recovered quickly. Silver again topped $30 on February 8, then set a new 31-year high on February 17. From then until the end of April, silver generally rose. It closed above $35.00 on March 4, then broke above $40.00 on April 8. Silver reached its high US close at $48.59 on Friday, April 29, though prices reached about $49.50 during the day.

Over that weekend, multiple brokerage firms raised their margin requirements on leveraged accounts, forcing a number of investors to liquidate their holdings on Monday, May 2. By May 6 silver fell all the way to $35.29.

2011 Commodity Track Record

The Federal Reserve Bank's Federal Open Market Committee is still pretending that the rise in consumer prices is so low that it is might be necessary for the US government to inflate the money supply. According to the most recent Bureau of Labor Statistics' Consumer Price Index-Urban Consumers, consumer prices in November 2011 were 3.4% higher than a year earlier.

However, look at the 2011 annual change for the following commodity wholesale prices I regularly track. I have separated the commodities into two categories of human food and other commodities. As you can see, human food and gasoline prices average much higher than the alleged 3.4% increase in the past year.

However, there were a number of industrial metals that declined in price in 2011, especially late in the year. Declines in these wholesale prices will moderate consumer price increases, though on a more delayed basis than for food and energy.

Human Food	
Beef, choice	+23.1%
Lard	+21.3%
Eggs, large white Chicago	+21.2%
Cheddar cheese, bulk Chicago	+17.5%
Hogs, Iowa	+14.6%
Tallow, edible	+10.9%
Corn, #2 yellow	+8.0%
Broilers, dressed A	+5.6%
Butter, AA Chicago	-3.5%
Corn oil, crude wet/dry mill	-7.4%
Soybeans, #1 yellow	-11.9%
Oats #2 Minneapolis	-16.2%
Wheat, hard KC	-18.5%
Other Commodities	
Hominy feed	+14.5%
Crude oil, Brent	+13.5%
Sorghum, (Milo) #2 Gulf	+13.3%
Gasoline, conv reg NY	+12.3%
Gold	+10.2%
Silver	-9.8%
Cottonseed meal	-10.3%
Palladium	-18.3%
Aluminum	-19.2%
Platinum	-20.9%
Copper	-22.4%
Zinc	-24.9%
Nickel	-26.7%
Natural gas	-28.9%

Keep these specific examples in mind when seeing the misleading headlines about 2012 consumer price increases.

In all, the COMEX raised margin requirements on leveraged silver accounts five times during the first two weeks of May. While it is proper to raise margin requirements when prices go up, the COMEX continued to do so even after prices were dropping. That was another blatant sign of price

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suppression. At the end of 2011, the COMEX margin requirements were about 2.5 times what they were at the start of the year, despite the price of silver having fallen almost 10% over the course of the year!

The silver market built a new base, eventually topping $40.00 again on July 18. It peaked at $43.02, the Friday before Labor Day. By October 4, silver had broken down below $30 again.

Silver surpassed $35.00 on October 27 and remained above $30 until December 14. With the US government apparently scared that people would turn away from the US dollar as a safe haven asset and acquire more physical gold and silver, both metals were clobbered for the end of the year. During intraday trading, silver fell down close to $26 on December 28. But prices had fallen too far. Eager buyers, especially from the Far East started buying and pushed up the price of silver to close at $27.88 on December 30.

There were several days where the price of silver ranged more than 10% between its high and low prices. In such volatile markets, a noticeable percentage of existing silver investors "could not stand the heat and got out of the kitchen." Other would-be purchasers were frightened away by the wild volatility.

In both the gold and silver markets, buyers from the Far East, including the Chinese government, were constantly adding to their holdings at every price dip. As one active precious metals trader told me, every time a large quantity of physical gold or silver appeared on the market, it was quickly sold and moved to a Chinese vault.

When the March 2011 silver futures contracts were maturing, many parties who owed the metal simply did not have the product to deliver. There were multiple stories of contracts being settled for cash, at prices that sometimes exceeded $60 per ounce.

Platinum: Several years ago, I forecasted that the price of gold was destined to rise of above platinum. At the time, the platinum price was more than double that of gold. My prediction came true in 2011.

Platinum ended 2010 at $1,778, more than 25% above the price of gold. By mid-January it had surpassed $1,800 and reached an interim high of $1,862 on February 8. For the next few months the prices ranged in the $1,700s and $1,800s. The metal reached another interim high of $1,876 on May 2.

As the price of silver was clobbered, platinum (and palladium) slowly began to drop. It settled below $1,700 on June 23. The price of gold closed above platinum for the first time on August 10. Thereafter, platinum showed some strength, reaching its 2011 high of $1,906 on August 22, the same day that gold had its highest US close for the year.

Since mid-September the price of gold has consistently been higher than platinum. Platinum's price fell below $1,600 on September 26, then below $1,500 on October 4. it hit its low for the year at $1,368 on December 29 before closing the next day at $1,407.00.

In Johnson Matthey's latest analysis of the platinum market, it projects another surplus of supply over demand again in 2012. I expect the price of gold to remain above platinum for a very long time, if not permanently.

Palladium: Palladium closed on December 31, 2010 at $803. It reached its yearly high of $858 on February 21 and the low of $549 on October 5. It ended 2011 at $656.00. For more than the past decade supplies of palladium have exceeded demand, so there is no reason why palladium should threaten surpassing its all-time high price of $1,100 in 2012 or any time soon after that.

Rare coins: There were several bright spots in the rare coin market in 2011, though not necessarily because of rising rare coin demand. The Proof Silver Eagles and Proof Silver Proof Sets were the top performers because of the overall higher average prices for silver in 2011 versus 2010.

However, the LCS US Investors Blue Chip Coins Index and the LCS US Collector Generic Coins Index outperformed all major stock market indices and precious metals prices in the year. They also far outperformed the two LCS indices tracking key-date coin prices.

This result is actually significant. When rare coin markets start to move upward, it is typical that the Blue Chip or Generic Coins increase first. They are the coins available in larger quantities that coin marketers can obtain to run major promotions. The rise in key-date coin prices tend to come later.

Actually, there was a boom in the rare coin market after the start of the Statehood Quarter series in 1999, the Sacagawea Dollars in 2000, and the Presidential Dollar series in 2007. The appreciation began to stall in 2008 along with many other assets that are not among the necessities of life. During 2011, the prices of several key-date coins declined as demand could not absorb the number of coins coming on the market.

Another important factor in the rise of Blue Chip and Generic Coin prices is that it occurred despite the weakness in Classic US Gold Coin prices. Gold coin prices certainly did not keep up with the rise in the gold spot price. In fact, some prices such as for the MS-63 $20.00 Liberty ended 2011 lower than they were at the start of the year!

The strength in Blue Chip and Generic Coins came from Morgan and Peace Dollars, from 19th Century Type Coins, and even some segments of Classic US Silver Commemoratives.

The US Large Size Paper Money market was largely stagnant in 2011 with the exception of significant price drops among Gold Certificates. Many Gold Certificates fell as much as 1/3 in price during the year. In paper money, there has generally developed a wide disparity of prices between Very Fine and Extremely Fine quality specimens. Right now, I consider that most issues in Fine or Very Fine condition offer the better value than notes graded Extremely Fine or better. This is a general observation, and there are numerous exceptions, so feel free to ask for more details.

With the relative underperformance of key-date coins and Classic US Gold Coins in 2011, I smell some opportunities. Actually, I expect the US rare coin market to do well in 2012. In late 2011, a new rare coin investment fund was established that could raise as much as $250 million to buy rare coins. While that sum may not impress Wall Street, it would make a serious difference in the rare coin market. The US Mint is the only rare coin marketer with more than $1 billion in annual sales. When this fund starts acquiring assets, all sectors of the US rare coin market, with the notable exception of modern ultra-high grade certified coins, should do very well.

Summary: Gold and silver did not perform as well as I expected in 2011. Platinum and palladium retrenched after over performing the year before. I think that gold and silver will prove my predictions correct as to target in 2012. However, before I go on to discuss what I expect in 2012 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. There were worldwide currency wars, where Switzerland officially tied its currency to the Euro late in 2011. The November 2010 to November 2011 increase in the Consumer Price Index of 3.4% was the highest in several years. There was continued softness in the residential and commercial real estate market.

In April, Section 9006 of Obamacare was repealed. This provision would have required all 38 million US companies, non-profits, and government agencies to issue 1099 Forms starting in 2012 to report to the IRS annual payments of $600 or more paid to any supplier of goods or services. This paperwork burden would have hit rare coin and precious metals dealers especially hard as much of their inventory is purchased from the general public.

I would give myself half credit for the large number of state and local government job cutbacks during 2011. They just were not as extensive as I anticipated. These cutbacks are by no means finished. Look for many more in 2012

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and beyond.

My prediction of major failures of private entities probably also deserves half credit. Belgium's Dexia Bank failed in 2011, one of the banks identified by the Financial Stability Board as so large that its failure could wreak worldwide havoc. The governments of Belgium, France, and Luxembourg propped up the bank to keep the contagion from spreading.

Also, toward the end of 2011, Bank of America was literally on the brink of collapse at least two times when, just like magic, the US government changed some rules to bail it out.

I'd even give myself partial credit in predicting the disclosure of secret deals between the Chinese and US governments. Among the flood of WikiLeaks documents released in 2011 were copies of Chinese cables that were intercepted by the US and forwarded to the State Department in Washington, DC. Two of the cables discussed how the Chinese government was aware that the US government was suppressing gold and silver prices. Although there was no "deal" to keep this secret, it was definitely a secret that both governments were keeping.

I was flat out wrong on three predictions. First, gold and silver did not outperform their price increases of 2010.

Second, not only did the 10-Year Treasury Debt interest rate not increase, it actually fell 70% over the course of 2011. This was part of a specifically announced plan by the Federal Reserve, so this result came about deliberately.

Many other interest rates paid by governments soared around the world, but my prediction was specific about the 10-Year Treasury Debt rate.

Third, I did not detect any developments in government plans to eventually "confiscate" private retirement accounts. This may have been an accident as many possible legislative actions were derailed by the fighting in Congress over a handful of issues.

I would not grade my forecast results very high. Having said that, though, I think the first few months of 2012 will rescue some of my misses. I expect that those who took actions on the basis of my predictions last January and have held their gold and silver positions will be satisfied before the end of May.

Now, here's a new set of predictions.

Ten Fearless Forecasts For 2012

1. The US dollar will fall against gold and silver by 17% or more—I give at least a 95% probability of occurrence. For the past twelve years, the US dollar has fallen every year against gold, by a compounded average of almost 17%. The dollar has also fallen against silver in nine of the past 12 years, averaging a compounded decline over the entire period almost as much as the dollar fell against gold. US economy and the finances of the US government look to be in the worst position at any time in the past 12 years, so I give this event as high a likelihood as any other event—virtually a "sure thing."

2. The US dollar index will decline below 65—I forecast a 50% likelihood of occurrence. The US Dollar Index ended 2011 just over 80. If the Index were to sink much below 70 at any time in 2012, there is a very real possibility of the dollar falling more sharply. The US monetary system could even collapse. However, it is possible that the Index may not fall that far as almost all of the other currencies used in calculating the Index are also seeing their money supplies inflated by their issuing governments. It is this "Mutually Assured Destruction" of multiple currencies that could keep the US Dollar Index from collapse.

3. One or more of the world's largest banks classified as SIFI by the Financial Stability Board will fail—I project a 95% prospect of occurrence. The Financial Stability Board operates under the auspices of the G-20 Group of Nations, effectively as part of a global government. At the G20 meeting in Cannes, France November 3-4, 2011, the Board identified a number of Systematically Important Financial Institutions (SIFI), which are banks and brokerages that are so large that failure of any one of them would pose a serious risk of worldwide financial chaos and collapse. Already, one of them, Dexia Bank in Belgium, has failed. With the losses sustained by US and European banks holding European sovereign debt positions, it is almost a "sure thing" that one or more will fail in 2012.

4. The Eurozone nations and the US government will both become more dysfunctional at preventing financial crises—which I foresee a 95% probability of occurrence. The latest fiasco where the US Congress, in theory an institution with the combined wisdom to pass timeless legislation, was only able to pass a two month extension of some expiring tax reductions, is a sample of what will happen constantly in 2012 in the US and in Europe. Businesses and individuals will not be able to make intermediate or long-term plans because they simply will not know what laws will be in effect even just a few months down the road. As a result, job-creating businesses will be hesitant to expand and hire employees.

5. A debt default, at least effectively, by one or more significant world governments leads to widespread financial chaos—I estimate at least an 85% likelihood of occurrence. Technically, there is no reason that any independent nation should ever default on its own debt—if the debt is denominated in the national currency. Governments could simply increase the money supply to repay debt with less valuable money.

However, most nations are constrained by not having enough economic clout to be able to issue debt in their own currency or they are a member of the Eurozone, where 17 nations are tied to a joint currency. High on the list of nations that may officially default on at least some of their debt in 2012 are Greece, Italy, Portugal, Ireland, Hungary, Spain, and France. It would not be a total joke to add the United States to this list as many state and local governments are teetering on the edge. The high risk of default by one or more Eurozone nations may well doom the Euro as it is now configured. However, this development would be so close to causing a global financial collapse that I expect extreme efforts to maintain an intact Eurozone. Will those efforts succeed? We'll see.

6. Another bankruptcy of a brokerage such as happened to MF Global Holdings in 2011 with the result that many more investors see their "secured" assets stolen from them—I expect an 80% prospect of occurrence. It is starting to look like the MF Global bankruptcy is going to end up with the counterparties holdings derivatives getting the lion's share of assets and the customers of the company getting the shaft. The prospect of this occurring at other brokerages is likely to spark investors to withdraw their accounts. During 34 of the last 35 weeks in 2011, US mutual funds experienced net outflows of investor funds. Any panic that leads to a "run" on a brokerage will likely drive the company to fail, causing a snowball effect of even more investors pulling their funds out of other brokerages.

7. Possible default on delivery of COMEX Gold and Silver Contracts—I figure a 60% chance of occurrence. The MF Global bankruptcy basically had as part of its fallout the failure of the COMEX to deliver on some gold and silver contracts. Expect a high risk of even more of this coming to pass in 2012. Any failure in 2012 would carry the added risk that gold and silver exchange traded funds may not be able to fulfill their obligations to hold or deliver sufficient metals to cover their outstanding shares.

8. The enactment of Sections 1031-1033 of the National Defense Authorization Act signed into law December 31, 2011 encourages at least a 50% increase in the number of Americans purchasing physical gold and silver—I estimate a 60% probability of occurrence. With the stroke of a pen, President Obama and Congress have conspired to pretty much repeal the 4th Amendment to the US Constitution. It authorizes the US military to seize any person (including Americans) at any time anywhere in the world (including on US soil) and hold them without pressing charges, bringing them to trial, or even acknowledging their arrest. All the US government has to do is

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allege that the person is possibly guilty of terrorism or conspiracy to support terrorism, under definitions that the US government dictates, against either the United States of any "coalition partners." When Americans realize that even the purchase of physical gold or silver might represent lack of faith in the US dollar and could be construed by the federal government as undermining its power, there is a significant chance that will actually spur some new buyers to quickly acquire precious metals "before it is too late." Such buyers would not necessarily be purchasing it to protect their financial well-being. Rather, I think many of them would become buyers out of fear of what further depredations the US government might inflict on its citizenry.

9. The US government takes further steps toward seizing the assets of private retirement accounts—I expect a 75% chance of occurrence. Face it, the US government is desperate to get its hands on any kind of financial resources. What better pretext than by proclaiming that in order to protect the value of private retirement assets that the US government will take them and replace them with US Treasury debt that is guaranteed to be "safe?" In one fell swoop, the government could gain trillions of dollars of assets in return for paper promises. There is no other asset pool with anywhere near this amount of assets for the government to attempt to seize. The seizure will continue to develop through a multi-step process, so the mandatory confiscation of private retirement assets will probably not happen until after 2012. But I think it highly likely that more steps will be taken toward that eventual goal.

10. The disclosure of more evidence that the Federal Reserve and other major central banks do not have all the gold reserves that they are reporting as being in their vaults—I foresee a 75% probability of occurrence. Every year, more documents come out and more public officials accidentally acknowledge that central banks have surreptitiously dumped their gold reserves on the market to suppress precious metals prices. In years past, the International Monetary Fund required central banks to record as being in their vaults any gold that was out on lease or a swap, and also requiring the central bank that had actual possession to record this same gold as part of its reserves. The IMF now permits central banks to stop double reporting of gold reserves, but there is almost certainly much more gold reported as being in vaults that just isn't there.

This list is by no means complete, but I am confident you get my point.

As one or more of these events occur, that will inevitably increase the prospect of other events coming to pass. If a national government defaults on its debt, that will put more financial pressure on the other governments, central banks, and private banks that hold this debt.

Where Are We Headed In 2012?

Since it proved so treacherous to name specific price targets, this year I will estimate probabilities of various year end price ranges.

Despite that, the risks of some catastrophes hitting early in the year leaves me confident with my recent predictions that the price of gold will reach $2,000 and silver $60 by the end of May 2012 at the latest.

As for the end of 2012, prices have a much wider range of possible outcomes. So, here I go with my estimated probability that the gold and silver prices will end within these various ranges:

Range	Probability
Gold under $1,500	1%
Gold $1,500-1,999	9%
Gold $2,000-2,499	35%
Gold $2,500-2,999	35%
Gold $3,000-5,000	15%
Gold above $5,000	5%
Silver under $25	1%
Silver $25-49	14%
Silver $50-99	50%
Silver $100-199	10%
Silver $200-399	10%
Silver above $400	5%

Here's a major development this is almost certain to result in higher gold and silver prices. Japanese Prime Minister Yoshihiko Noda and Chinese Premier Wen Jiabo met on December 25. At the conclusion of the meeting, they announced the signing of an agreement whereby both countries will promote direct trading between the two countries denominated in the yen and yuan. Currently, according to Japan's finance ministry, about 60% of transactions between the two countries are denominated in US dollars.

In addition, the Japanese government will also begin purchasing Chinese bonds in 2012. Increasing the use of the two nations' currencies and elimination of the use of US dollars is expected to reduce currency risks and trading costs between the two nations.

China is Japan's largest trading partner, amounting to about $340 billion in two-way transactions last year. The large volume of trade between the two countries makes this agreement more important than treaties that China has signed with many other nations to eliminate the US dollar from bilateral trade.

So, what does this development have to do with the precious metals markets?

A lot.

First, this agreement will reduce international demand for US dollars. US dollar reserves held by foreign central banks largely represent an interest-free loan to the US government. As foreign demand for US dollars declines, the result will almost certainly cause the US government to monetize new debt (inflate the money supply).

Right now, China has $3.2 trillion and Japan has $1.3 trillion of central bank foreign exchange reserves. These are the two largest hoards of foreign exchange held by any nation, with no one else coming anywhere close. The majority of these reserves are denominated in US dollars. If, between them, Japan and China are able to unload hundreds of billions to trillions of US dollars, the dollar will fall further in value.

A lower value of the US dollar will likely mean that US consumer prices will rise faster than at any time in at least the past three decades!

In my opinion, the near elimination of the US dollar for transactions between Japan and China will cripple the attractiveness of the dollar as a safe haven asset. In 2012, a lot of the funds that would have gone into dollar-denominated paper assets in 2011 will instead be diverted to purchasing gold and silver.

According to GFMS, one of the most respected analysts of precious metals markets, China's government and private citizens will have absorbed more than 22 million ounces of gold in 2011. That is 30-35% of current worldwide gold mine

(Continued on page 6)

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.

(Continued from page 5)
production. It is also many millions of ounces more than in 2010. Under terms of this agreement, you can just about guarantee that demand in 2012 will be much higher than it was in 2011.

This agreement represents a huge financial blow to the US government, to the US economy, and to the dollar. It may take months for the effects of it to impact the average citizen. You may have a little time to acquire more precious metals at today levels, which I consider to be a short-term bargain. How much time do you have? We'll only know that answer after prices have jumped.

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. To be safe, I'm allowing until the end of May.

Silver and Silver Coins

Silver settled today at $29.86, down a huge $2.87 (8.8%) from six weeks ago.

As bad as that reads, silver fell as low as about $26.10 on December 28, which was a whopping fall of more than 20% from November 30.

With the drop in spot prices, demand has soared. As often happens in such circumstances, premiums on various bullion-priced coins and ingots are up. Still, supplies of just about every product are available. Today, we received our first shipments of 2012-dated US **Silver Eagle Dollars** (10.9%)

One reason I expect much higher silver prices by the end of May is that Sprott Asset Management filed paperwork to seek $1.5 billion of new investor funding of its physical silver fund. At current prices, that would be well over 50 million ounces of silver. When this fund purchased 20 million ounces roughly a year ago, Eric Sprott told me that it took months to receive all the physical silver they purchased. In fact, he estimates that over half of the silver that was delivered had not yet been mined as of the date he bought it!

This new larger purchase could put an even stronger squeeze on physical supplies, pushing prices upward.

The form of physical silver I most recommend continues to be US **90% Silver Coin** (3.7%). In quantity, it costs 38 cents per ounce less than **100 Ounce Ingots** (5.0%) and more than $2.00 per ounce less than Silver Eagles. Beyond a low cost per ounce, 90% Coin is also the most widely traded form of physical silver, the most liquid, and is highly divisible. Each silver dime contains about 1/14 of an ounce of silver.

In 2012, I expect a wide range of **Morgan and Peace Silver Dollars** to be strong performers. I especially like high-grade, better-date issues whose current prices do not adequately reflect their rarity relative to the common dates. This month our offer of **Very Choice Mint State-64 1879 Morgan Silver Dollars** is a perfect example. Please see our enclosed flyer for details.

The Month

Gold Range	207.00	11.7%
Net Change	-106.25	
Silver Range	5.54	16.9%
Net Change	-2.87	
Gold/Silver Ratio		54.9
Net change		+1.6
Platinum Range	193.00	12.4%
Net Change	-63.00	
Platinum/Gold Ratio		.91

Date	Gold	Silver	Platinum
Nov 30	1,745.50	32.73	1,561.00
Dec 01	1,735.25	32.70	1,557.00
Dec 02	1,747.00	32.62	1,549.00
Dec 05	1,730.75	32.31	1,533.00
Dec 06	1,728.00	32.67	1,524.00
Dec 07	1,741.00	32.56	1,522.00
Dec 08	1,709.75	31.47	1,494.00
Dec 09	1,712.75	32.17	1,516.00
Dec 12	1,664.25	30.94	1,487.00
Dec 13	1,660.00	30.73	1,469.00
Dec 14	1,584.25	28.88	1,416.00
Dec 15	1,574.50	29.22	1,407.00
Dec 16	1,595.50	29.62	1,417.00
Dec 19	1,594.50	28.82	1,413.00
Dec 20	1,614.75	29.48	1,425.00
Dec 21	1,615.00	29.20	1,420.00
Dec 22	1,605.00	29.03	1,425.00
Dec 23	1,604.75	29.04	1,429.00
Dec 26	closed		
Dec 27	1,594.25	28.65	1,432.00
Dec 28	1,563.00	27.19	1,389.00
Dec 29	1,540.00	27.27	1,368.00
Dec 30	1,565.75	27.88	1,407.00
Jan 02	closed		
Jan 03	1,599.75	29.53	1,433.00
Jan 04	1,612.00	29.06	1,426.00
Jan 05	1,619.50	29.27	1,418.00
Jan 06	1,616.00	28.65	1,408,.00
Jan 09	1,607.50	28.75	1,429.00
Jan 10	1,631.00	29.78	1,465.00
Jan 11	1,639.25	29.86	1,498.00

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

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

Gold And Gold Coins

Gold closed today at $1,639.25, down a significant $106.25 (6.1%) from last month.

There are a couple of premium increases in among the larger bullion-priced gold coins and ingots. Pretty much all of them are readily available. However, among smaller European Gold Coins, demand in Europe has soared. Premiums are up almost across the board over the past month. Supplies are available for the time being, but could become difficult to obtain at almost any time.

My low premium favorites for physical gold continue to be the US **American Arts Medallions** (3.5%), the Austria **100 Coronas** (3.5%), and the Mexico **50 Pesos** (3.6%).

The US Mint has already released all four sizes of US Gold **American Eagles** (5.6%-13.2%). I believe that this early release of the smaller coins is a tactic of the US government to try to make it appear that there is more physical gold on the market than there really is. If physical gold really was so plentiful, I don't think we would have seen the premiums rise so much in the past month on smaller European Gold Coins.

In the December 2, 2009 issue of *Liberty's Outlook* I recommended selling or swapping **Pre-1934 US Gold Coins** as their prices were quite high relative to gold value at the time. My recommendation hit the peak of that market almost to the exact day. Although most US Gold Coin prices have risen since then because of higher gold spot prices, the increases have not matched the rise in bullion gold. In fact, the MS-63 $20.00 Liberties that I recommended selling at $2,400 on December 2, 2009 can now be purchased for $2,060 today, even though the gold spot price is now about 50% higher!

Now that the prospects for much of the rare coin market look more attractive, I anticipate that selected Pre-1934 US Gold Coins could once again outperform the rise in the spot price. As with silver dollars, I especially like **High-Grade Better-Date US Gold Coins** that can be obtained much closer to common date prices than their relative rarity would lead you to expect. Last week at the Florida United Numismatists Show in Orlando, I scooped up four different dates of **High-Grade Better-Date $20.00 St Gaudens** at prices that may never be this low again. See our offer for details.

Even as the premiums for smaller European Gold Coins rose, we acquired a nice group of **Mint State-60+ 1918-I India Sovereigns** that we offer at bullion-like prices. If you are looking for rarity in a semi-bullion coin, this is your chance.

Liberty's Outlook is published monthly by Liberty Coin Service, 300 Frandor Ave., Lansing, MI 48912. Telephone: National 800/527-2375 Fax: 517/351-3466 Website: www.libertycoinservice.com, E-mail: path@libertycoinservice.com Patrick A. Heller, Editor. Subscriptions are available at $149.00 per year (12 issues). Send subscription orders and changes of address to the above address. All information is derived from sources believed to be reliable, but accuracy cannot be guaranteed. No guarantee of profitability of any investment or recommendation contained herein is made or implied. Liberty Coin Service has been a dealer in rare coins and precious metals since 1971. The publisher, its principals and associates may, from time to time, have a position in items recommended here.

Liberty Coin Service Computer Quotes 2PM EST 01.11.12

Item	Qty	Fine Wt	Price	Cost/Oz	Premium
*U.S. 1 Oz Gold Eagle	10	1.0000	1,731.00	1731.00	5.6%
*U.S. 1/2 Oz Gold Eagle	10	0.5000	886.00	1772.00	8.1%
*U.S. 1/4 Oz Gold Eagle	10	0.2500	450.75	1803.00	10.0%
*U.S. 1/10 Oz Gold Eagle	10	0.1000	185.60	1856.00	13.2%
*U.S. 1 Oz Gold Buffalo	10	1.0000	1,732.75	1732.75	5.7%
*Australia 1 Oz Kangaroo	10	1.0000	1,736.00	1736.00	5.9%
*Austria 100 Corona	10	0.9802	1,663.00	1696.59	3.5%
*Austria 1 Oz Philharmonic	10	1.0000	1,734.25	1734.25	5.8%
*Canada 1 Oz Maple Leaf	10	1.0000	1,708.00	1708.00	4.2%
*China 1 Oz Panda	10	1.0000	1,790.00	1790.00	9.2%
*Mexico 50 Peso	10	1.2057	2,047.50	1698.18	3.6%
*S. Africa Krugerrand	10	1.0000	1,709.75	1709.75	4.3%
*U.S. Medallion	10	1.0000	1,696.50	1696.50	3.5%
*1 Oz Ingot	10	1.0000	1,700.00	1700.00	3.7%
*Austria 1 Ducat	10	0.1107	197.80	1786.81	9.0%
*Austria 4 Ducat	10	0.4428	813.00	1836.04	12.0%
*British Sovereign	10	0.2354	424.50	1803.31	10.0%
*British Sovereign, BU	10	0.2354	432.50	1837.30	12.1%
*France 20 Franc	10	0.1867	344.00	1842.53	12.4%
*Germany 20 Mark	10	0.2304	445.75	1934.68	18.0%
*Swiss 20 Franc	10	0.1867	345.50	1850.56	12.9%
$20 Liberty BU	10	0.9675	1,825.00	1886.30	15.1%
$20 St Gaudens BU	10	0.9675	1,835.00	1896.64	15.7%
$20 Liberty Extremely Fine	10	0.9675	1,780.00	1839.79	12.2%
$10 Liberty Extremely Fine	10	0.4838	885.00	1829.27	11.6%
$5 Liberty Extremely Fine	10	0.2419	458.00	1893.34	15.5%
*U.S. 90% Silver Coin	1,000	715	22,150.00	30.98	3.7%
*U.S. 40% Silver Coin	1,000	295	8,975.00	30.42	1.9%
*U.S. Circulated Dollars	1,000	760	28,000.00	36.84	23.4%
*U.S. Silver Eagle-2012	1,000	1,000	33,110.00	33.11	10.9%
*Canada Silver Maple Leaf	1,000	1,000	32,860.00	32.86	10.0%
*100 Oz Silver Ingot	10	100	3,136.00	31.36	5.0%
*10 Oz Silver Ingot	100	10	316.10	31.61	5.9%
*1 Oz Silver Ingot	1,000	1	31.61	31.61	5.9%
*1 Oz Platinum Ingot	10	1.0000	1,585.00	1585.00	5.8%
*U.S. 1 Oz Platinum Eagle	10	1.0000	Not available		
*U.S. 1/2 Oz Plat Eagle	10	0.5000	Not available		
*U.S. 1/4 Oz Plat Eagle	10	0.2500	Not available		
*U.S. 1/10 Oz Plat Eagle	10	0.1000	Not available		
*Other 1 Oz Plat Coins	10	1.0000	Not available		
*Canada Palladium ML	10	1.0000	698.00	698.00	8.0%

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Trading Desk Hours (Eastern): Mon-Fri 10AM-5:30PM, Sat 10AM-2PM

Spot Prices

Gold:	$1,639.25
Silver:	$29.86
Platinum:	$1,498.00
Palladium:	$646.00

Notes from Liberty

by Allan Beegle
LCS Chief Numismatist

December sales were among the highest of any month in 2011! Sales were especially strong in the last ten days of the month, after gold and silver prices unexpectedly dropped. Normally activity at the end of December is pretty slow, as people are preoccupied with the holiday, but not this time around!

Last month's offering sold well. The 2012 Canada Silver Cougars that were listed in this column sold out quickly. However, I was able to locate another 500 coins that we could offer for the same prices.

Last week, LCS General Manager Pat Heller attended the massive Florida United Numismatists show in Orlando. This is the largest coin show in the US each year, and possibly the largest anywhere around the world. Although Pat took a limited amount of inventory to offer to other dealers, his sales were much higher than FUN shows of years past.

On the other side, there were limited opportunities to acquire some lovely bargains. Pat came up with a real find when he picked up a modest quantity of **Better Date Mint State-62 and Choice Mint State-63 $20.00 Saint Gaudens Double Eagles.** This group included the less frequently seen dates that sell for close to common-date value. How rare are they in high grade? The 1914 and 1915 dates we have only been able to offer a couple times each within the past 20 years!

We also had the great fortunate to purchase a collection that included a number of **Mint State-60+ 1918-I Sovereigns from India.** Out of more than a billion Sovereigns struck at seven mints on five continents, the Bombay (now Mumbai) Mint struck the fewest—barely one million specimens. They were also struck for only one date. Still, with our fortunate purchase, we can offer these coins at a bullion-related price.

Two weeks ago, an East Coast dealer

-over-

Liberty Coin Service Computer Quotes 2PM EST 01.11.12

Spot Prices

Gold:	$1,639.25
Silver:	$29.86
Platinum:	$1,498.00
Palladium:	$646.00

Coins, Rolls and Sets	
U.S. 10 pc Gold Medallion Set, 1980-1984, BU	$13,075
U.S. Morgan Dollar, 1921, Brilliant Uncirculated Roll/20	$900
U.S. Morgan Dollar, Pre-1921, Brilliant Uncirculated Roll/20	$975
U.S. Peace Dollar, Brilliant Uncirclated Roll/20	$875

Numismatic Coins (PCGS/NGC/ICG Graded)	*MS-63*	*MS-64*	*MS-65*
U.S. $20.00 St Gaudens	2,000	2,050	2,275
U.S. $20.00 Liberty	2,060	2,400	3,900
U.S. $10.00 Liberty	1,400	1,900	3,875
U.S. $5.00 Liberty	795	1,350	2,700
U.S. 4 pc Indian Gold Type Set	6,375	9,320	18,625
U.S. 4 pc Liberty Gold Type Set	4,865	6,550	11,870
U.S. 8 pc Gold Type Set	11,180	15,720	30,045
U.S. Morgan Dollar (Pre-1921)	67	88	175
U.S. Peace Dollar	60	72	165

Prices quoted are for quantities indicated, and are actual selling prices at today's closes. Smaller lots are available at slightly higher prices. No Michigan Sales Tax on rare coins or precious metals bullion. Numismatic purchases have a 15 day return period. Orders for bullion-priced items (marked with *) are not returnable and, after confirmation, cannot be cancelled.

friend called me to offer an original group of **Very Choice Mint State-64 1879 Morgan Silver Dollars.** Like the Saints we offer this month, this coin is far more rare than its price would indicate, especially when compared to the much higher prices at which it has sold in the past.

I don't mean to sound repetitive, but we have limited quantities of each of these offers. Typically, the bargain deals that we locate are for coins so scarce that you just never see large quantities available. That also normally means that when we sell out, we are unable to locate more specimens, especially at the same price.

So, I really mean it when I urge you to review each month's offers promptly, then call quickly to check on availability and to confirm your purchase. You can reach our Trading Desk direct, toll-free, at **800-527-2375**.

Naturally, we have come up with some other interesting bargains in the past month:

Gem Mint State-65 Carson City Morgan Dollars From The GSA Hoard: The Carson City Mint opened in 1870 and operated until 1885, then again from 1889 through 1893. It only struck silver and gold coins. Virtually every issue from Carson City is a treasured rarity.

The Carson City Mint struck very few Morgan Dollars. However, they were minted in an era when the Mint was required to strike two million silver dollars a month, far beyond what was needed for circulation purposes, as a political payoff to the members of Congress from Western states.

Consequently, only a small fraction of "CC" Dollars were ever put into circulation. Almost all of them remained in government vaults until the 1970s. In the 1970s, the General Services Administration (GSA) sold these coins to the public. They were placed in hard plastic holders which are referred to in the industry as "GSA Gov Packs."

Because of the high percentage of coins that survived in Mint State condition, these coins are more affordable in high grade than their relative mintage figures would indicate. These holders are so popular that both PCGS and NGC are willing to grade the coins and seal them in the "GSA Gov Pack" holders.

We now have one specimen of 1882-CC and two specimens of 1883-CC GSA Gov Pack Morgans that have been certified as Gem Mint State-65 by NGC. Current *Coin Values* catalogs them for $500 each, but you can own them for just $429 apiece.

Superb Gem Proof-66 1879 Three Cent Nickel: One collector category where prices have been rising over the past year has been among 19th Century US Coins in top quality. This blazing PCGS-certified specimen is a perfect example of coins that collectors are now chasing. Only 3,200 Proof Three Cent Nickels were struck in 1879.

At one time, this coin with an unusual denomination would have cost you as much as $5,200. Today it lists in *Coin Values* in Proof-65 quality for $1,100. This higher grade coin can be yours for $895.

Rare US Large Size Paper Money: Literally late this afternoon, we purchased a few pieces of US Large Size Paper Money that included some rarities where we have not handled any specimens in at least five to ten years:

U.S. $20.00 National Currency, Series of 1882 Brown Back, Charter 1067, The Mercantile Bank of the City of New York, New York, Net Fine-Very Fine condition—$550. This note technically grades Very Fine, but we describe it conservatively because of a number of barely visible pinholes. There on two vignettes on the obverse. To the left is a depiction of "The Battle of Lexington, 1775." To the right is a proud Lady Liberty marching in front of men depicting the them of "Loyalty." On the back at the left side is the New York state seal.

U.S. $5.00 Silver Certificate, Series of 1923, Net Fine condition because of blue ink stamp on reverse—$595. This is the famous "Porthole" note because of the large circular frame around Lincoln in the center of the front. The Note technically grades Choice Very Fine, but we value it conservatively because of the small 4-digit blue ink stamp at the lower right of the back. Without that ink stamp, this Note would go for double the price.

U.S. $20.00 Gold Certificate, Series of 1905, Very Good-Fine—$1,195. This Note is nicknamed Technicolor because of the red seal on the front, along with black yellow, and gold inks and a reverse entirely done in gold-colored ink. There are no other notes of any denomination or type that come anywhere close to this amount of color on a piece of US paper money. Though the Note displays ample evidence of circulation, it is problem-free and sure to be a prize in any collection.