Liberty's Outlook

Our 30th Anniversary! 1971-2001

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Thin Markets Magnify Price Movements!

Buffalo Commemoratives Sell Out In 2 Weeks! Prices Soar 50-200%!

The gold and silver markets have been comparatively quiet over the past month. It is almost as if everyone has taken defensive positions and are now just waiting.

Waiting for what?

They're waiting for a judge's ruling sometime in the next few months on whether the lawsuit filed by the Gold Anti-Trust Action Committee (GATA) will be dismissed or will proceed to the discovery stage.

The defendants in the lawsuit are the Bank for International Settlements (BIS), Alan Greenspan, chairman of the U.S. Federal Reserve System and a director of BIS, and William J. McDonough, president of the Federal Reserve Bank of New York and also a director of BIS. Five major bullion trading banks are named: J.P. Morgan & Co., Chase Manhattan Corp., Citigroup, Inc., Goldman Sachs Group Inc., and Deutsche Bank. Also named is Lawrence H. Summers, former U.S. Secretary of the Treasury, who by law exercised control over the U.S. Equalization Stabilization Fund (ESF), subject only to approval of the U.S. president.

The lawsuit claims that the U.S. government and a cartel of bullion banks have manipulated the price of gold lower for their own benefit, while harming mostly poor gold-producing nations in the process.

Since the filing of the latest round of motions in April, many short-term paper contract traders have closed out their short positions. Gold mines have cut back on selling future production. Several investment funds have added long positions in either physical or paper gold.

These defensive moves are happening with one concern in mind: the possibility that far greater amounts of official gold reserves may have been sold over the past few years than was officially reported. If only some of the allegations in the GATA lawsuit have merit and become subject to discovery, the price of gold could quickly skyrocket. Indeed, one GATA speaker in May hypothesized gold at $600 per ounce!

So, while things are quiet now, it seems a good time to review the changes in the gold market over the past few years.

A Gold Market In The Doldrums

In general, paper contract and physical gold trading volume has diminished in recent years. With lower volume has come a decline in the number of brokerage firms that serve this market.

Here's some examples.

In early 1997, the London Bullion Market Association was trading a daily average of more than $13 billion in gold. By late 2000, the daily volume was less than $6 billion.

The New York Comex, Chicago Board of Trade, and Tokyo TOCOM had nearly 5 million ounces of gold in warehouses at the end of 1980. By the end of 1999, this was down to 1.5 million ounces.

From 1974 through 1984, the South African Mint struck more than 40,000,000 1 Oz Gold Krugerrands, an average of more than 3.6 million per year. For calendar year 2000, the U.S. Mint sold only 94,000 1 Oz American Eagles. Worldwide bullion gold coin production in 2000, including all coin sizes, was almost certainly less than one million ounces.

The number of major bullion wholesalers has declined, with some now focusing on trading paper contracts. Even the largest surviving wholesalers tend to have little to no inventories of any but the most widely traded issues. After all, when the U.S. Mint sets a minimum order requirement of 1,000 pieces for the 1/10 Platinum, a year's supply for most wholesalers, you can understand why the U.S. Mint has sold only 4,000 of these coins since the end of January.

This decline in volume is not surprising, given the apparent lack of inflation, for which gold is the classic historical hedge, and the long-term strong market in paper assets. Investors have simply seen less reason to put money into hard assets in recent years. This attitude has helped keep the price of gold down near levels rarely seen since the late 1970s.

Thin Markets Magnify Price Movements

A thinner market in gold has the effect of magnifying any price movements.

For instance, the possibility of the imminent liquidation of Centaur Mining and Exploration Ltd., one of Australia's largest gold mining companies, with a liability to cover one million ounces of gold that it had sold forward, was largely responsible for the $5.00 increase in gold on May 9. Had the gold market been much larger than its current size, the price move would have been only a fraction of that.

The greater volatility in gold prices that we witnessed in May can be attributed to thinner markets.

If it does turn out that the market has been absorbing 10-30% more gold over the past several years than generally reported, the thin market will also magnify the rally in gold prices.

Not only will it be more difficult to find any given quantity of physical

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gold, it will also become difficult to find a dealer able to handle the transaction on a prompt basis.

In a sustained gold rally, more banks, brokerages, and dealers will enter or reenter the gold market. As they do, their demand to acquire physical inventory will add to overall demand. While that is happening, the price of gold will be pushed upward that much more.

A perfect example of magnified price increases in a thin market happened in the 1990s with collectible paper money. This category of numismatics, originally served mostly by specialists, was growing at the same time that the overall numismatic market was on the downward slope of the market cycle. When coin dealers saw that they could increase their volume by becoming active paper money dealers, many did so. Their purchases of inventories to help establish themselves in the paper money market also contributed to pushing up prices.

Savvy investors can magnify future profits by buying gold in a thin market. The big questions are *if* and *when* there will be a major move.

I cannot answer those for sure. I can only lay out the possibilities.

1. If the GATA lawsuit proceeds, the U.S. Treasury will have to explain why the 54.7 million ounces of former gold reserves at West Point, New York were reclassified in September 2000 to "Custodial Gold."

Former Treasury Secretary Summers will also have to reconcile the statement by the Fed's legal counsel in the January 31, 1995 minutes of the Federal Reserve Open Market Committee that the ESF had traded gold and had the legal authority to do so with later statements by Summer's subordinates that the ESF had traded no gold, especially since it lacked the legal authority to do so.

The mere continuation of the lawsuit, with the heightened risk of uncovering distortions in official gold trading data, could make gold prices take off. If it turns out that there is truth to any of GATA's allegations (and at least one former high official at the Fed says that they are likely to be proven at least partly correct), the price of gold could skyrocket.

2. If the GATA lawsuit is dismissed, there is still a small chance for a major rally in gold if some of the allegations are true, but it could be years down the road.

3. If the GATA claims are totally baseless, then there is a significant possibly of a gold rally on a smaller scale, maybe $50-100 per ounce, early in 2002.

At the beginning of 2002, the existing currencies of 11 European nations become obsolete. Residents in Germany, France, Italy, Spain, The Netherlands, and elsewhere will have to exchange their coins and currency into Euros, the new common currency for all 11 countries. All of these countries have large "informal" or "black-market" economies. There has been a large demand for U.S. currency by people seeking to convert their untaxed currency holdings into another unreportable form. This demand will cease at the end of 2001. The rally in gold will depend on how much the U.S. dollar drops as the currency demand declines.

4. If none of the above events produce a rally, there are signs of the return of inflation of the U.S. monetary supply. It could take a longer to affect the price of gold, but it could have an effect similar to 1979-1980 when the price more than tripled.

5. It is also possible than none of these events will come to pass. In that scenario, the price of gold could stay in the doldrums for the indefinite future. Overall, I give this option less than a 10% chance of occurring.

Given the limited downside risk, and the small likelihood of a long-term stagnant market, I think the prudent investor would do well to add to their gold holdings now.

Russian Central Bank Continues To Add Gold Reserves

As reported by the Interfax news agency in Moscow yesterday, the dollar value of the Russian government's gold reserves increased from US $3.708 billion at the end of December 2000 to US $3.801 billion at the end of June 2001.

Adjusting for the change in the price of gold, that indicates that the Russian government increased its physical holdings of gold reserves by more than 3% since the start of the year. This continues a multi-year accumulation program by the Russian central bank.

As time passes, Russian leader Putin's alleged statement in late May that Russia would possibly sell gold to fund relief efforts for victims of floods in Siberia, a statement he later denied making, looks more likely to be just a carefully placed rumor meant to drive down the price of gold.

In semi-opaque markets such as gold, with only partial information available on inventories and trades, short-term traders can use rumors to generate profitable market swings in the absence of hard news.

Last month, I warned readers that the alleged upcoming Russian gold sale didn't make sense. We will continue trying to separate rumor from fact so that our readers can make their buying and selling decisions on hard data.

Thundering Buffalo Commemoratives Set Record!

As I forecasted, the U.S. Mint's American Buffalo Commemorative Silver Dollar is a strong favorite with collectors. But not even I anticipated the incredible public frenzy over these coins.

The coin, a virtual replica of the In-

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Did You Know?

Here are the top 15 hoards of gold reported by central banks and official organizations as of April 2001:

Country	*Millions Oz*								
1. United States	261.6	5. Italy	78.8	9. Euro Central Bank	24.0	13. Taiwan	13.3
2. Germany	111.5	6. Switzerland	75.7	10. Portugal	19.5	14. China	12.7
3. IMF/BIS	103.4	7. Netherlands	29.3	11. Spain	16.8	15. Russia	12.6
4. France	97.3	8. Japan	24.6	12. UK	14.1		

Notes: These are officially reported figures. They may be inaccurate because the United States total includes 54.7 million ounces held at West Point that were reclassified from "Gold Reserves" to "Custodial Gold" last September . There is also some possibility that Germany may have sold about 55 million ounces of its reserves. Since April, Switzerland and The Netherlands have sold gold reserves. With the Bank of England gold auctions in May and today, the United Kingdom reserves have dropped below 12.7 million ounces. Russia's reserves may be higher than reported, possibly as much as 14 million ounces.

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dian Head, or Buffalo, Nickel that was issued from 1913 to 1938, went on sale on June 7. The authorized limit of 500,000 coins sold out within two weeks! That set a new record for the fastest sellout of a U.S. Commemorative issue in the past 20 years (the old record was four weeks)!

Purchasers had four options. They could purchase the individual coin, either in Proof or Uncirculated condition, or the two coin set with both the Proof and the Uncirculated version, or a set with an Uncirculated coin and a replica of the 1899 $5.00 Silver Certificate nicknamed the "Indian Chief."

All of the American Buffalo Commemoratives are trading well above Mint issue prices, up 50-200%!

The frenzy reminds me of the Mint sellout of the 1986 $5.00 Statue of Liberty Commemoratives. Back then, the Mint sold 500,000 coins for more than $200 apiece. Both the Proof and Uncirculated versions quickly jumped to more than $600. Prices started falling in late 1986 and have never recovered.

Right now, the individual dollars are trading for close to $100 for both the Proof and Uncirculated versions. It is hard for me to see the price rising much from current levels. In the long-term, I expect these coins to retail in the $50-75 range. If you were fortunate enough to acquire some of these beautiful coins from the Mint, you may want to take your profits now. If you would like to own some of these coins, I would now recommend waiting a few years to pick them up at lower prices.

The excitement over the new commemorative has spurred interest in the Buffalo Nickel series. Expect prices for this series to outperform the overall rare coin market for the balance of the year.

From past experience, I feel safe in making another prediction. Whenever the U.S. Mint has issued a collector coin in quantities so small, relative to demand, that prices jump quickly in the aftermarket, coin buyers become more eager to buy the next product from the Mint. Demand from people hoping to make a quick profit invariably results in a high initial demand, with less aftermarket support.

So, I predict that the initial demand for the 2002 Winter Olympics Commemoratives will be higher than the aftermarket can sustain. Prices will likely decline. We saw this occur with the 1972 Eisenhower 40% Silver Dollars and with the 1987 Constitution $5.00 Gold Commemoratives. If you would like to own the 2002 Olympic Commemoratives, my best advice is don't buy them from the Mint. Wait for lower prices later.

State Quarter Mintages Decline—An Opportunity?

We are constantly asked if it is a good idea to purchase the Statehood Quarters as an investment. Financially, the answer is no. While they are valuable for the amount of fun you can have collecting them, do not expect to pay for your retirement or the kids' college educations with them.

Having said that, there will likely be some opportunities to make small profits in State Quarters.

The U.S. Mint far underestimated initial demand for this series. The Mint struck 1.7 billion quarters for all of 1998, the last year before the State Quarter series began. Mint officials originally expected to strike only 2.5-3 billion coins per year to meet demand, an average of 500-600 million per state.

Initial demand was so strong that the first three issues in 1999, Delaware, Pennsylvania, and New Jersey, have mintages of 662-774 million. So many of the early issues were hoarded that prices soared to as much as six times face value for uncirculated rolls and bags! That encouraged even more public interest in the following issues.

The Mint cranked up production, peaking at 1.6 billion Virginia quarters at the end of 2000. After striking 4.43 billion quarters in 1999, another 6.47 billion quarters were produced in 2000.

With an increased supply of coins from the Mint, and an increased supply of the late 1999 and subsequent issues hoarded by people waiting for someone else to pay a higher price, the following issues have not gone up in price at all!

Now momentum is swinging in the other direction. Because it has been two years since people could pick up coins at face value and make a quick profit, a lot of people will likely stop buying and putting away the forthcoming issues. As demand drops, so will production. We have seen this scenario repeatedly in the past.

For the North Carolina quarters that came out this spring, Mint production declined to 1.055 billion coins, with the Denver mintage being the lowest since the first three issues of 1999! Now that we are approaching the end of the issues for the first 13 colonies, mintages could slip further, eventually perhaps less than 500 million per state. It would not surprise me if forthcoming State Quarter issues, especially the later ones from low-population Western states, turn out to be the keys of the series. If you can get a few Mint State rolls of them at or near face value, it just might pay off in a few years. Don't expect any big profits. But you could have fun being a bit of a contrarian.

Gold and Gold Coins

Gold finished today at $268.25, up $2.25 (0.8%) from five weeks ago. When the Bank of England auction today sold at $1.00 higher than yesterday's close in New York, a mini-rally ensued.

While the price is little changed from last issue, there continues to be more volatility compared to earlier this year and late 2000. Gold actually ran up almost 4% during June before profit-taking knocked the price back down.

As discussed earlier, my subjective evaluation is that the investor psychology is changing. For years it seemed that no kind of news could boost the price of gold and all sorts of news could knock it down.

For the past two months, instead, investment houses confirm that there are investors waiting to buy gold should any rally develop. Last Friday's Comex report on open trading positions revealed that the net position of the exchange is 1.6 million ounces long. The Comex has been in a net long position ever since the week following the GATA meeting in Durban. That is a sharp contrast to earlier this year when the open contracts typically netted to a 5-10 million ounce short position.

The price of gold seems to be in a holding pattern right now. If the court permits the GATA lawsuit to proceed to discovery (which could happen any time now), the price of gold could quickly take off. For that reason, I urge you to acquire your gold bullion position sooner than later.

My top recommendation goes to the lowest premium issues: the U.S. **American Arts Medallion** (2.6%), South African **Krugerrand** (2.9%), and Austria **100 Corona** (2.8%).

Prices for high grade **Common-Date U.S. Gold $20.00 Double Eagles** sof-

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tened over the past month. Supplies are plentiful. However, prices for many smaller denominations coins, which have far lower supplies, increased. With the MS-63 $2.50 Indian now up more than 50% this year, collectors and investors are now looking at the other equally scarce type coins such as $2.50, $5.00 and $10.00 Liberties, and $5.00 and $10.00 Indians.

Quantities of **Better-Date U.S. Gold Coins** continue to be almost impossible to locate. By a fluke, Chief Numismatist was able to scoop up a nice group of **Mint State-62 $5.00 Liberties from the 1800s** at a very attractive price. At the same time, another wholesaler told him that he had buyers waiting to purchase almost any quantity of those coins he could locate. Besides being an excellent long-term value at today's price levels, they may also enjoy some short-term increases. See our enclosed flyer for details.

Silver and Silver Coins

Silver closed today at $4.24, down ten cents (2.3%) from a month ago. Twice in the past week it has closed at $4.22, the lowest close since it settled at $4.18 on July 16, 1997.

The long absence of any major news development related specifically to the silver market has hurt prices. Physical silver demand for industrial fabrication remains strong, resulting in a continuation of a two-tier market. Prices for physical silver remain well above the spot price for "paper" silver.

It is the lack of significant news that led more holders of physical silver to lease their stock to short-term traders. The result: lease rate for silver have dropped, with short-traders seizing the opportunity to try to force down spot prices by selling short.

It makes no sense for silver to be priced so cheaply. However, trading in the paper market is many times the volume of the physical market, so the price is behaving as though the long-term physical shortages and disappearing inventories do not matter.

The closer we get to exhausting available inventories of silver, the higher the price of silver will spike. Three years ago, it only took a $650 million investment by Warren Buffet's Berkshire Hathaway to run up the price of silver by 40%. Now a much smaller amount would have a much larger impact on the silver market. For a more detailed analysis of the long-term silver shortage, please see the April 4, 2001 issue of *Liberty's Outlook* (call or write for a free copy).

In the very near term, the price of silver could decline to prices not seen since late 1993. While that could happen, I am still a buyer of physical silver at today's levels. You see, after silver closed at $4.18 on July 18, 1997, it then rose 25.8% over the next 11 weeks to close at $5.26 on October 3, 1997.

To my mind, there is a greater possibility of a major rise in the price of silver than there is a risk of more than a 10% decline.

The premium on U.S. **90% Silver Coin** (9.2%) still appears high, though it is right in line with what industrial buyers are paying for silver. It is the current price leader for physical silver. It also enjoys the greatest liquidity and greatest divisibility.

Other forms of silver such as **100, 10 and 1 Ounce Ingots** (10.6%-15.3%) and U.S. **40% Silver Coin** (11.5%) are also worth considering. However, very large quantities of these could take some time to locate.

U.S. **Silver Eagle Dollars** (41.3-54.2%) and **circulated common-date Morgan and Peace Dollars** (134.3%) are too expensive to be considered as ways of buying silver bullion. They are popular and worth considering for collectible mementos, but not as investments. If the price of silver rises sharply, the prices of these coins will not follow right along. Example: when silver spot was $6.00 in early 1998, we were paying $6.50 to purchase Silver Eagles. A short time later, when the spot price topped $7.00, we were still paying just $6.50 to purchase them.

In my judgment, many numismatic silver coins have gone up too much in price, relative to other coins, to represent good value in today's market. A prime example would be rolls of common Mint State Franklin Half Dollars. We thought these were excellent values when we offered them for less than $60. Now they are almost impossible to find, with some dealers charging more than $100 per roll. The early-date Franklin rolls we offered last month seem to be a much better value in comparison.

There are many individual **Better-Date and Better-Type Numismatic Silver Coins** that are selling at small fractions of their all-time high prices. There are lots of superb values out there—if you are fortunate enough to locate nice coins. This month's offering of **Collector Bargains** includes several great examples.

The Month

Gold Range	$ 10.25	3.9%
Net Change	+2.25	
Silver Range	.25	5.8%
Net Change	-.10	
Gold/Silver Ratio		63.3
Net change		+2.0
Platinum Range	42.00	7.3%
Net Change	-15.00	
Platinum/Gold Ratio		2.10

Date	Gold	Silver	Platinum
Jun 06	266.00	4.34	578.00
Jun 07	266.25	4.34	583.00
Jun 08	273.50	4.37	587.00
Jun 11	268.00	4.34	577.00
Jun 12	271.50	4.37	571.00
Jun 13	272.00	4.41	576.00
Jun 14	275.50	4.47	575.00
Jun 15	271.25	4.40	578.00
Jun 18	272.50	4.42	576.00
Jun 19	273.50	4.40	575.00
Jun 20	272.50	4.35	579.00
Jun 21	272.75	4.33	577.00
Jun 22	272.50	4.31	569.00
Jun 25	273.75	4.31	565.00
Jun 26	276.25	4.35	565.00
Jun 27	272.00	4.31	568.00
Jun 28	269.00	4.30	565.00
Jun 29	270.50	4.30	553.00
Jul 02	269.25	4.29	545.00
Jul 03	267.50	4.26	547.00
Jul 04	closed		
Jul 05	265.25	4.22	546.00
Jul 06	266.00	4.24	556.00
Jul 09	266.50	4.22	555.00
Jul 10	266.25	4.24	551.00
Jul 11	268.25	4.24	563.00

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

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

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