

# Liberty's Outlook

Volume 13 Issue 7 Liberty Coin Service's Monthly Review of Precious Metals and Numismatics July 11, 2007

## June 2007—U.S. Financial Crisis Averted—For Now!

- **U.S. Dollar Hits 26 Year Low To British Pound, All-time Low To Euro!**
- **Federal Reserve Chair Bernanke—If Public Doesn't Realize Extent Of Inflation, Then It Isn't Happening!**
- **Credit Suisse Report—Banks Face \$52 Billion In Losses Over Sub-prime Mortgages!**
- **Advisor To Prime Minister Urges Japanese Government To Unload \$700 Billion In U.S. Treasury Debt!**

In mid-June, problems at two hedge funds established in 2006 by brokerage giant Bear Stearns (the High Grade Structured Credit Strategies Enhanced Leverage Fund and the High Grade Structured Credit Strategies Fund) nearly wreaked major havoc across U.S. financial markets.

These funds were started with \$600 million of investor funds, plus debt backed by collateral of securitized sub-prime mortgages. In late May, these two funds still had about \$20 billion of investments, even though the larger fund had already absorbed losses of about 25% on its investments.

The default rates on the sub-prime mortgages (made to borrowers with riskier credit histories) had been higher than expected, leading to this decline in the value of the investments and of the collateral.

Merrill Lynch, another brokerage giant, was one of the financiers of the larger of these two funds. As the value of the collateral declined, Merrill Lynch requested additional collateral. When Bear Stearns refused to do so, Merrill Lynch seized \$800 million of the collateral and threatened to put it up for auction on June 18.

Bear Stearns managed to persuade Merrill Lynch to postpone the auction by two days to allow time to arrange an emergency rescue plan. Bear Stearns agreed to put up \$1.5 billion of its own money, but that was not enough to dissuade Merrill Lynch from conducting the auction.

Eventually, Merrill Lynch agreed to cancel the auction and to allow an orderly process of liquidation to take place.

I have not seen any news reports detailing exactly what Merrill Lynch was promised or what behind-the-scenes pressure was brought to bear upon the company, but I strongly suspect that government regulators were involved.

Had Merrill Lynch gone ahead with its auction, the U.S. financial system could

have undergone its worst financial crisis, perhaps, since the Great Depression of 1929.

Sub-prime mortgages have been repackaged into a kind of financial instrument called a collateralized debt obligation (CDO). Investors can buy them like a bond that has a higher return because of the greater risk. A CDO typically contains provisions defining who bears the risk of loss if the underlying mortgages have an unexpectedly high default rate, with the owner of the CDO, the issuing brokerage firm, and sometimes an insurance company possibly on the hook.

The last I read, there were about \$490 billion of CDOs outstanding.

If Merrill Lynch had auctioned the CDOs they were holding as collateral, they would have sold for well below face value.

This liquidation at less than face value would have forced a wide scale downward pricing of all other CDOs as well as other forms of mortgage-backed bonds.

This would have forced other funds to book heavy losses and lead to margin calls. As one anonymous analyst said, "No one in the sub-prime business wants to ask the question of whether they need to re-mark (revalue) all the assets.. That would open the floodgates."

Had the U.S. financial markets been forced to suddenly absorb this hit, I suspect that immediate losses would have exceeded \$100 billion.

As it is, a July 6 report issued by Credit Suisse analysts calculated that banks could absorb losses of up to \$52 billion if the market remains orderly. Most of these losses would be from loans to hedge funds, with a relatively small amount coming from losses from investments in the hedge funds.

Although the Credit Suisse report states that losses of this magnitude can be absorbed

### 2007 Year To Date Results

Through July 10, 2007

#### Precious Metals

Platinum	+14.5%
Palladium	+9.6%
Gold	+4.3%
Silver	+0.3%

#### Numismatics

MS-63 \$20.00 St Gaudens	+5.3%
MS-63 \$20.00 Liberty	+0.0%
MS-65 Morgan Dollar	-8.0%

#### US Dollar vs Foreign Currencies

Japan Yen	+2.5%
Switzerland Franc	-1.2%
China Yuan	-2.9%
Great Britain Pound	-3.4%
Euro	-3.9%
India Rupee	-8.7%
Canada Dollar	-9.8%
Brazil Real	-11.3%
U.S. Dollar Index	80.86 -3.2%

#### US and World Stock Market Indices

Frankfurt Xetra DAX	+20.7%
NASDAQ	+9.3%
Dow Jones Ind Average	+8.3%
London FT 100	+6.6%
S&P 500	+6.5%
Russell 2000	+6.3%
Tokyo Nikkei 225	+6.0%

#### Intrinsic Metal Value Of U.S. Coins

Lincoln Cent 1959-1982	2.43¢
Lincoln Cent 1982-date	0.89¢
Jefferson Nickel-non-silver	7.37¢
Roosevelt Dime 1965-date	3.35¢
Wash Quarter 1965-date	8.36¢
Kenn Half Doll 1971-date	16.72¢

by the global financial system, I think there are two problems with their analysis.

**Inside this issue:** Counterfeit Coin Certification Problems page 3  
Honors And Achievements For LCS Staff page 4  
Change In Postage Costs page 4

(Continued from page 1)

First, I suspect (which means that I do not have proof) that Credit Suisse received a lot of actual pressure from others in the industry and also from government officials to state this problem on the conservative side, or that the firm anticipated problems in their commercial and regulatory relationships if they reported the problem as being worse than they did.

Second, the report generally assumes that the losses wrought by sub-prime mortgages will be absorbed in an “orderly” manner. That means that no other hedge funds suddenly go belly up, or other kinds of events occur that could throw financial markets into turmoil.

Already other hedge funds have been identified as having serious financial problems with CDOs, including Cheyne Capital’s Queens’ Walk, Cambridge Place Investment’s Caliber Global Investment, and United Capital’s Horizon Funds.

What needs to be kept in mind about the problem with the Bear Stearns funds is that they are just small bit players in the overall financial markets. I would not be at all surprised to find that there are several such funds in similar straits, any one of which could wreak major havoc on the financial markets with almost no warning.

## How To Protect Yourself

The problems in the Bear Stearns hedge funds represent merely one more warning alarm about the U.S. financial markets and the value of the U.S. dollar.

The fallout from the collapse of these funds is already wreaking losses in U.S. dollar-denominated paper assets. Credit rating agencies such as Standard & Poors have started to lower the ratings for CDOs and stated that many more downgrades are in the pipeline. The U.S. stock markets have taken several hits in the past few weeks, and may not be finished heading to lower levels.

Even though the Federal Reserve Board held short term interest rates unchanged again at their meeting two weeks ago, the market isn’t waiting. Long term U.S. Treasury note interest rates have jumped up more than a half percent already this year.

Fear is not a good basis on which to take effective action to protect your wealth, but I am more afraid of the U.S. economy than I have ever been. My youngest children, fund their own Roth Individual Retirement Accounts (IRAs). I have pulled most of their investments out of dollar-denominated assets and am in the process of setting up precious metals IRAs for them.

I am almost always against the concept of using retirement accounts to acquire precious metals. IRAs and other retirement plans defer taxes, which ownership of precious metals also accomplishes. Precious metals IRAs involve extra paperwork and

expenses that you don’t have if you own the assets personally. There is also a major loss in financial privacy.

Most of all, I am concerned that bills previously introduced in Congress to tax or confiscate part of assets in retirement accounts may someday actually reappear and become law.

Despite all of these concerns, I am worried enough about the risk of a major financial calamity in stock and bond markets and about a serious decline or outright collapse in the U.S. dollar that I am investing over 50% of each child’s net worth in precious metals IRAs.

I reiterate my previous recommendation that I now think it is prudent to put at least 20% of one’s net worth into hard assets such as gold, silver, and rare coins. This is higher than my previous recommendation of only 5-10% as an insurance position. Even at 20%, I am still more conservative than some other firms that are recommending a much higher allocation of hard assets.

## Even More Reasons To Be Optimistic About Gold And Silver Prices

If you ever needed any more evidence that we are in the early stages of a major boom market in gold and silver, Federal Reserve Chairman Ben Bernanke spilled the beans yesterday in a presentation to the National Bureau of Economic Research. Among his comments, he said,

“If inflation expectations are well anchored, changes in energy (and food) prices should have relatively little influence on ‘core’ inflations, that is, inflation excluding the prices of food and energy.”

“Inflation is less responsive than it used to be to changes in oil prices and other supply shocks.”

“A one-off change in energy prices can translate into persistent inflation only if it leads to higher expected inflation and a consequent ‘wage-price spiral.’”

Bernanke’s remarks are definitely not in plain English. What he really was saying is that so long as the general public doesn’t realize that inflation is as high as it is, they won’t take action to protect their wealth.

Apparently, it is only if consumers are so worried about inflation that they aggressively start buying sooner rather than later and demand higher interest rates on their bonds and CDs that Bernanke will admit inflation is a problem.

The Federal Reserve is going out of its way to hide the true extent of inflation. For instance, it discontinued reporting the M3 definition of the money supply early last year so that data on the amount of U.S. dollars and Treasury debt being liquidated by foreign central banks and investors simply would not be reported.

Now, in the consumer goods inflation data that is reported, the Fed assumes that consumers do not eat, do not need fuel for trans-

portation, and do not purchase energy for their dwellings, or do not purchase any other goods whose prices are rising faster than “acceptable.”

***If the Chairman of the Federal Reserve has to try to talk down the public’s realization of inflation, what that really means is that inflation is much worse than the public perceives. It is a clear signal that you need to take action now, if you have not already done so, to protect your wealth.***

There is also other news that is extremely bullish for gold and silver. From March to May, central banks unloaded large quantities of gold. So much gold was being sold that the central banks who were signatories of the Central Bank Gold Agreement (CBGA) had to sharply reduce sales to stay within their annual quotas.

For much of June, central banks were selling gold at the rate 125,000-130,000 ounces per week. In the week ended June 29, when markets were still threatening to fall into chaos, central banks sold more than 1.3 million ounces of gold. Such a huge level of sales only knocked down the price of gold a few dollars.

Last week, central bank sales fell back down to only 125,000 ounces.

There are only 10 weeks left in the current annual quota, which runs from October 1 to September 30. Even if central banks resume selling gold at the rate they liquidated it from March to May, they will fall well short of meeting the annual 16.1 million ounce limit. As of July 6, cumulative annual sales for the fiscal year were about 9.6 million ounces. Final sales for the 12-month period are likely to end up in the range of 12.2-13.5 million ounces of gold sold. This multi-million ounce shortage of supply will simply make the long-term annual shortages even larger.

Takatoshi Ito, a member of Japanese prime minister Shinzo Abe’s economic advisory panel, said in an interview July 6 that he recommends that the Japanese Treasury convert \$700 billion of the nation’s reserves, which are primarily all in U.S. dollars and U.S. Treasury debt, into corporate debt, mortgage-backed securities, stocks, and other assets. Although Japan currently has \$913 billion in foreign exchange reserves, Ito says that Japan only needs \$200 billion to use for reserves.

The Chinese government continues to state that it will aggressively add to its gold reserves, unloading U.S. dollars and U.S. Treasury debt to do so. It is also encouraging its citizens to purchase gold. Public and private demand for gold in China is growing so rapidly that at least one analyst thinks that as much as 75% of all newly mined gold will be going to China in the near future. Already I have heard stories of merchants having trouble keeping physical gold in stock and of would-be gold buyers having to stand in line for hours in order to buy gold, because there are so many buyers and not because of poor customer service!

(Continued from page 2)

In the U.S. commodity markets, commercial traders, other than the handful of holders with very large short positions, have purchased their largest long positions of gold and silver in decades.

The Comex silver market is still distorted even more than it was during the Hunt Brothers long side attempt at manipulation in 1979-1980. The four largest traders of Comex silver contracts are short a net 250 million ounces. The size of this market-breaking short position is growing quickly this year as these traders are trapped trying to postpone being hit with billions of dollars of losses.

On June 27, the Chairman of the Commodities Futures Trading Commission (CFTC) Reuben Jeffery, suddenly resigned to take a job the next day at the State Department. The suddenness and the speed of his departure could be a warning flag akin to rats deserting a sinking ship. Upon his departure, that left three vacancies on the 5-member panel that oversees the CFTC.

President Bush quickly announced an acting chair to replace Jeffery, but the difficulty of finding people to take positions of responsibility for what the CFTC does, *and fails to do*, could be a clue that the CFTC is wrestling with a huge problem, with the manipulated silver market being the prime candidate.

These factors all point toward major increases in the prices of gold and silver in coming years. However, several of these factors could break almost at a moment's notice, leaving little time to buy precious metals before huge price increases.

You would be much safer to add to your gold and silver positions now, rather than risking a delay. I am in the process of doing just that for my family, so you might say that I am putting my money where my mouth is.

You are welcome to call us to help you acquire gold and silver as insurance against the risk of sharp declines in the value of your U.S. dollars and dollar-denominated paper assets.

## Counterfeit Rare Coin Certification Problems

In the past, collectors had to be vigilant of counterfeit and altered coins. For instance, a counterfeiter could make a fake gold dollar out of full standard gold content and try to pass it off for a collector value that was five to ten times higher. Or low value 1916 Mercury Dime from the Philadelphia Mint could have a D mint-mark attached to the surface to pass off as the scarcer coin worth hundreds of dollars.

Over the years, the American Numismatic Association and others have worked diligently to educate numismatists how to detect counterfeit and altered coins. The advent of coin certification has greatly di-

minished the risk purchasing expensive coins that were bad.

Now, a major new form of counterfeits has appeared—coins encapsulated in counterfeit ANACS holders.

It is rumored that this new attempt at counterfeits has its origins in the Far East. Wherever it comes from, it involves the older generation of ANACS holders with the white plastic inserts. A coin of lesser quality and value than the grade described on the holder is put into these holders and passed off, primarily in internet auctions.

A spokeswoman for ANACS said they are aggressively monitoring online offerings of ANACS coins every day. There are some defects in the production of the holders and certificates that make it obvious to identify them, but ANACS will not disclose these diagnostics and enable the crooks to find out how they can improve their work. They do report that they have had a sizeable quantity of coins removed from internet auctions and also had a number of vendors of large quantities of these coins evicted from further auctions.

When I checked with officials at the Professional Coin Grading Service (PCGS), they stated that they had quickly detected an effort at placing substandard coins in counterfeit holders in the late 1980s, where there was a defect in the text style on the certificate and the plastic was made by a different method than used for genuine PCGS holders. PCGS, to preserve its reputation, went to great lengths at the time to seek restitution for victims and even spent some of its own money to do so.

The PCGS folks also expressed confidence that they would quickly become aware of any further attempts to counterfeit their holders. While I respect PCGS's integrity, I don't have the same level of confidence that future counterfeit holders of *any* grading service will be easily and quickly detectable.

I did not have time to query the Numismatic Guaranty Corporation (NGC) on this subject.

The best protection for rare coin purchasers is to look at the coin first. If the coin does not please you for the described grade, don't buy it. I don't care what grading service has encapsulated the coin. By carefully inspecting your purchases, you should be able to avoid any coins in counterfeit holders because the coins in these holders are of lesser quality and/or have problems that make them less attractive.

## Gold and Gold Coins

Gold settled today at \$660.25, down \$8.75 (1.3%) from five weeks ago.

While the price of gold may have been relatively quiet in the U.S., the gold price

has recently reached post-1980 peaks in Canadian and South African currencies.

In the past few weeks, demand for gold has soared, as investors bailed out paper assets that were suddenly perceived as being riskier than they had been.

As part of this demand for physical gold, the prices of lower grade U.S. **\$20.00 Double Eagles** have increased. Even though the gold price is down from a month ago, these coins now are selling at higher prices than last month. Premiums on U.S. **American Eagles** (5.1%) and U.S. **Buffaloes** (5.3%) are also slightly higher.

Demand for **Better-Date U.S. Gold Coins** just seems to be getting stronger. Allan Beegle snapped up a 4 piece group of **Choice Mint State-63 1914 \$20.00 St Gaudens** at the Baltimore show two weeks ago, which probably equals the quantity of this low mintage date that we have handled in this grade over the past 25 years!

We also offer some **Mint State Italian Gold 20 Lire From The 1800s** that we recently repurchased from customers. These coins are almost non-existent in dealer stocks. See our offers for details.

## Silver and Silver Coins

Silver closed today at \$12.87, down 79 cents (5.8%) from last month.

When there was a strong sell off in the precious metals and stock markets as fallout from the Bear Stearns hedge fund crisis, silver was hit more than other assets. Rather than taking the opportunity to try to close some of their short positions, the large traders with huge short positions on the Comex commodities exchange increased their short positions.

Like gold, demand for physical silver has increased from last month. Premiums are up slightly on virtually all forms you can purchase. U.S. **90% Silver Coin** (0.4%) is still the best buy. Demand for **100 Ounce Ingots** (3.0%) was so strong over the past few weeks, that we actually experienced some delays in being able to obtain enough product from wholesalers to fill customer orders.

Demand for silver rare coins generally remained strong. We were fortunate enough to acquire enough **Better Date Superb Gem Mint State-66 Morgan Dollars** to make a general offering of a variety of dates. We also picked up two lots of **1999 Australia 1 Oz Silver Kookaburras Honoring U.S. State Quarters**. These coin sets are so rare that we could only find one other dealer who had any in stock, and his price is more than four times what you can purchase them from LCS. Please see our enclosed flyers.

## FreedomFest 2007 Report

With the help of Office Manager Barb Robinson, I staffed the LCS booth at FreedomFest 2007 in Las Vegas last week. This libertarian/financial convention has been or-

(Continued on page 4)

(Continued from page 3)

ganized since 2002 by investment guru Mark Skousen. Over the years, Skousen and some of the other speakers have given uncompensated endorsements of LCS.

My presentation was titled "Rare Coin Profits: 10 Insider Secrets." The 50-minute talk was recorded and we will soon receive a quantity of CD recordings. We would be delighted to send you a copy of this CD at your request.

A major part of my presentation was identifying sales terminology and tactics that usually are signs of companies that may be overcharging for their merchandise, are offering merchandise that has more downside than upside potential, or has merchandise sold by representatives who are not competent numismatists.



Office Manager Barb Robinson at LCS's FreedomFest 2007 booth

Attendees also received a special report of the various analyses (the Undervaluation Index™) of the U.S. coin series that I prepared this year and posted in prior issues of *Liberty's Outlook*.

It was a pleasure meeting several current and past customers at FreedomFest, including several who have actually visited our store. The response to our attendance was enthusiastic enough that we may well take another booth next year.

Incidentally, in talking with a number of prospective and new customers there, I learned that some coin telemarketers are so aggressive at calling people that it has made

Call our **Trading Desk** Toll Free

**800-527-2375**

for current prices and to confirm trades.

Call our **Toll-Free Quotes Line:**

**800-825-8930**

for a message with the spot prices at the U.S. market close and price indications for U.S. 1 Oz Gold Eagles and U.S. 90% Silver Coin Bags.

For a more detailed list of prices, check Daily Quotes on our website

[www.libertycoinservice.com](http://www.libertycoinservice.com)

## The Month

Gold Range	27.00	4.0%
Net Change	-8.75	
Silver Range	1.45	10.6%
Net Change	-.79	
Gold/Silver Ratio	51.3	
Net change	+2.3	
Platinum Range	35.00	2.7%
Net Change	+7.00	
Platinum/Gold Ratio	1.96	

Date	Gold	Silver	Platinum
Jun 06	669.00	13.66	1,287.00
Jun 07	660.00	13.44	1,282.00
Jun 08	645.50	13.00	1,271.00
Jun 11	654.00	13.23	1,285.00
Jun 12	648.75	13.05	1,285.00
Jun 13	648.50	13.03	1,274.00
Jun 14	651.50	13.14	1,276.00
Jun 15	654.50	13.23	1,277.00
Jun 18	655.50	13.21	1,287.00
Jun 19	660.00	13.30	1,288.00
Jun 20	656.00	13.22	1,289.00
Jun 21	650.50	13.08	1,285.00
Jun 22	653.00	13.02	1,297.00
Jun 25	651.25	12.87	1,274.00
Jun 26	642.50	12.24	1,263.00
Jun 27	642.00	12.21	1,264.00
Jun 28	647.50	12.38	1,269.00
Jun 29	648.00	12.36	1,268.00
Jul 02	656.50	12.62	1,275.00
Jul 03	653.00	12.57	1,276.00
Jul 04	closed		
Jul 05	649.00	12.47	1,284.00
Jul 06	652.50	12.70	1,287.00
Jul 09	660.50	12.71	1,298.00
Jul 10	662.50	12.87	1,294.00
Jul 11	660.25	12.87	1,294.00

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

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

them leery of doing business with any coin company.

LCS customers know that we do not make cold calls at all. The only times we may call customers are to resolve a problem with a payment or shipment on an order or if we have found an item on a customer's want list.

LCS has also never rented its customer list to any outside party and has a policy to protect customer confidentiality by never doing so.

## More Honors And Achievements For LCS Staff

LCS Senior Numismatist Tom Coulson along with David Hartung, who processes our internet sales, attended last week's seminars at the American Numismatic Association in Colorado Springs, Colorado.

Tom took the course on Detection of Counterfeit and Altered Coins and attended a presentation on coin conservation. When our Inventory Paul Manderscheid took this course in 1983, he caught two mistakes in the teaching materials. Tom showed that he was paying attention in class when he also discovered an error in the teaching materials.

David took a class in digital coin photography. Coins are much more difficult to accurately photograph than most people suspect. Coins have intricate details and reflective surfaces, which makes it difficult to set up the optimum lighting. Copper coins are especially difficult to have come out as light or dark as the coin actually is. As David puts his education to use, expect to see improvements in our pictures.

Last, the members of the Professional Numismatists Guild (PNG) have just voted me (Patrick A. Heller) into their membership. Membership is restricted to well established, full-time coin dealers who have a significant numismatic investment, and who agree to adhere to industry-leading customer service and protection standards. The few hundred PNG members are the elite among thousands of U.S. coin dealers.

## Change In Postage Costs

The United States Postal Service (USPS) raised postage rates recently. Although most are familiar that the one ounce first class envelope postage rate went from 37 to 41 cents, the USPS imposed an even higher increase on the cost of shipping merchandise.

One of the ways that rates have increased, for instance, is that lightweight boxes no longer are priced at the first class rate. A box weighing only one ounce now costs \$1.13.

Beginning July 16, we are raising our flat postage charge for orders of gold and rare coins to \$15.00. We will continue to figure actual costs for shipments of silver bullion-priced merchandise.

Where a total order value is under a few hundred dollars, we will look at the possibility of shipping by insured mail to help hold down your postage costs.

Registered mail is much safer, where we have only had 13 such packages (out of tens of thousands) fail to reach customers in our 36 years of business. For insured mail, our experience is that about 1% never get delivered. We will monitor our loss rates to see if insured mail is a viable way to save customers some postage costs on smaller value packages.

*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](http://www.libertycoinservice.com), E-mail: [path@libertycoinservice.com](mailto:path@libertycoinservice.com) Patrick A. Heller, Editor. Subscriptions are available at \$109.00 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. Copyright 2007, all rights reserved.