Liberty's Outlook

Volume 8 Issue 6 Liberty Coin Service's Monthly Review of Precious Metals and Numismatics June 5, 2002

Gold Up 28% In 15 Months!

(While DJIA declines 11% and NASDAQ plummets 39%!)

Silver Up 25% In 6 Months!

(While DJIA drops 2% and NASDAQ loses 19%!)

More Gold, Silver, Rare Coin Profits Coming As U.S. Dollar Declines!

P. 4 Platinum Up 31% In 7 Months!

Worrisome economic news is running rampant. Almost daily we hear more bad news, including:

- Reports of overstated corporate profits at Enron and a growing multitude of other companies.
- The shaky Japanese banking and financial system. Moody's Investor Services last week lowered the rating on the Japanese government's long-term debt.
- The developing tariff war over steel (reminiscent of the Smoot-Hawley Act that helped turned the 1929 depression into The Great Depression).
- The decline in gold mine production that is accelerated by mines reducing their overall forward sales position.
- Reports that show that the so-called economic recovery maybe isn't happening so fast (or at all!) as politicians and economists were forecasting.
- The U.S. Consumer Price Index that is currently rising at an annualized 3.8% which is higher than 1-year LIBOR interest rates (i.e. investors are realizing a negative rate of return on their bonds)

On top of the gloomy economic news, we also have several war clouds overhead or on the horizon:

- The build up of tensions between India and Pakistan, both nuclear powers,
- The constantly mounting death toll in Israeli and Palestinian lands,
- The lack of a definite conclusion of the U.S. fight against Osama bin Laden and the Taliban,
- And the official pronouncements that more terrorist attacks are to be expected on U.S. soil.

With so much doom and gloom, especially for the U.S., it is no wonder that the U.S. dollar has been falling, reaching 16 month lows against the Euro and Swiss Franc. It is also at its low for the year against the Japanese yen, British pound and Canadian dollar. Overall, the U.S. dollar has fallen by 8% in 2002.

As much as the U.S. dollar and stock markets were overvalued in recent years, they now seemed destined to keep declining for some time to come.

For instance, JP Morgan Chase has a highly regarded technical strategy team. JP Morgan Chase technical analyst Craig Ferguson says that a case can be made for a complete retracement of the seven-year rally in the U.S. dollar. Although he qualifies his statement with several warnings, he said that most "currencies are yet to break their major pivots," which would confirm a trend change but that "the weight of evidence against the U.S. dollar is growing."

According to Ferguson's analysis, if a change in the trend of the U.S. dollar is fully confirmed, he thinks the Euro could rise more than 50% against the U.S. dollar to about $1.45 and that gold will rise above $400. Ferguson expects that if this confirmation comes to pass, it will be confirmed by mid-June!

As the dollar declines, past experience reveals enormous profit opportunities for gold, silver, and rare coins. Maximum profits will be realized by those who take action ahead of the herd.

While the dollar and U.S. stock markets have been falling, the prices of gold, silver, and platinum have risen sharply! The market for U.S. rare coins started to take off about two months ago.

Have precious metals and rare coin prices reached an interim peak, or is this rise just a forerunner of much higher prices to come in a developing bull market?

For clues as to what might happen in the next 6-12 months, lets look at what happened after the U.S. dollar peaked in 1985.

After The U.S. Dollar Peak In 1985

In early 1985, the U.S. dollar was the top dog, rising strongly against virtually all foreign currencies and pushing the price of gold to a six year low.

This distorted value of the dollar stimulated imports into the U.S. at the same time that is cut U.S. exports.

The dollar began a slow decline, taking until April 1995 to hit bottom. In the slide, the dollar lost half of its value against the Japanese yen and other major currencies.

Gold: Against gold, the dollar hit its

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peak (or gold its low) on February 28, 1985 when the U.S. gold market closed at $283.00.

On March 18, 1985, gold topped $300. It passed $350 on January 16, 1986. Then it reached $400 on September 2, 1986. It took until April 20, 1987 for gold to pass $450.

On October 18, 1987, the day the U.S. stock market crashed about 25% in one day, gold broke through $480. Gold finally peaked at $497.00 on December 11, 1987, a price it has not again reached in the 14-1/2 years since.

It took 19 months for the price of gold to rise 50% and 34 months for gold to gain 75%. The price of gold more than held its own in protecting investors losses in the value of their U.S. dollar-denominated paper assets.

Silver: Silver did not realize the same results, in large part because the silver market was in the middle of a decade-long massive oversupply of new production. Still, the price of silver was $5.56 on February 25, 1985. Over the next 34 months, it rose as much as 50% above that level, an amazing result in the circumstances. On December 11, 1987, the spot price was $6.91, up "only" 24% in 34 months.

Numismatics: A little context is necessary to understand the moves in the rare coin market after the U.S. dollar started falling in 1985.

In 1982, the IRS released preliminary regulations for coin dealers to report to the IRS the purchase of gold and silver bullion and bullion coins.

The language in the regulations was vague about who would be required to submit the forms, exactly what items were covered, and if any minimum size of transaction was required to trigger a report.

Although the IRS kept promising prompt attention to the problems caused by the vague wording, *it took over ten years* for resolution.

When finally issued, the regulations were so lightweight that they only covered three bullion gold coins—one ounce Krugerrands, one ounce Maple Leafs, and 1 ounce Mexico Onzas—in minimum quantities of 25 coins each, $1,000 or larger bags of U. S. 90% Silver Coins, and sizeable quantities of gold, silver, platinum, and palladium ingots. In practical terms, LCS only has to send in a few dozen reports per year among the thousands of purchases we make from the public.

In the time when the regulations were still unsettled, a number of coin dealers took advantage of the uninformed public with scare campaigns.

With variations, the general theme of the sales pitch was "if you purchase bullion or bullion coins, your transactions would be reported to the government, but if you buy old U.S gold coins, your transactions would be private."

The hidden agenda behind frightening hard asset customers was this: dealers typically made 1-3% profit margins on bullion products, but made 10-20% profit margins on U.S. gold coins!

While they lasted, the scare campaigns were effective. Even though the price of gold declined after an intermediate peak in 1983, demand for U.S. gold coins soared in 1984. Prices started to rise.

In the six months before February 25, 1985, near the peak of the U.S. dollar, the spot price of gold dropped 18%. In that time period, the price of all Mint State grades of common-date U.S. $1.00, $2.50, $3.00, and $5.00 gold coins rose. The $10.00 and $20.00 gold coins were all up for MS-65 quality coins. In lower mint state grades, the $10.00s and $20.00s were mostly down, although by less than the fall in the gold spot price.

So, U.S. gold coin prices were generally strong on February 25, 1985. But, as the dollar started to decline, the prices of U.S. gold coins took off!

I remember working at the LCS booth at the Michigan State Numismatic Society show on Thanksgiving weekend nine months later. If you had U.S. gold coins in stock, everyone wanted to buy them, at prices that were hard to believe.

During that nine month period, the price of gold was up 15%. But every common type of U.S. gold coin was up in every Mint State grade by even higher percentages:

Coin	MS-60	MS-63	MS-65
$1.00 Lib	+65%	+50%	+47%
$1.00 Ind	+68%	+58%	+44%
$2.50 Lib	+54%	+70%	+50%
$2.50 Ind	+48%	+30%	+50%
$3.00 Ind	+40%	+58%	+50%
$5.00 Lib	+56%	+27%	+36%
$5.00 Ind	+67%	+68%	+47%
$10.00 Lib	+72%	+62%	+42%
$10.00 Ind	+103%	+65%	+49%
$20.00 Lib	+32%	+32%	+59%
$20.00 Stg	+21%	+22%	+39%

In 1985, numismatic silver coins, especially common-date Mint State Morgan and Peace Silver Dollars, generally declined, paralleling the decline in the silver price. However, the falling dollar reduced the amount by which prices fell.

The strength in the mid-1980s of gold and silver rare coins compared to the falling U.S. dollar was only a glimmer of the soaring rare coin market that developed in 1988-1989.

As the dollar was falling, those who earn commissions selling investments to their clients helped develop a modest number of rare coin mutual funds. Because of the small size of the rare coin market compared to stocks, bonds, and commodities, a rare coin fund of a mere $50 million sent shockwaves through the market. As these funds were being organized, other collectors and investors jumped in to buy, buy, buy before "Wall Street money" appeared to absorb all the rare coins at nice profits to the sellers.

By the time the market peaked in June, 1989, many rare coins, gold, silver, copper, and copper-nickel, set all-time price records. Both common-dates and better-dates were strong. We warned our customers against paying $1,000 for common MS-65 Morgan Dollars, advice that saved our customers thousands of dollars.

In the spring of 1989, many rare coin prices were rising 5-10% weekly. However, once it became obvious that the rare coin mutual funds were not selling as well as anticipated, with some only receiving commitments for 20% of their intended "war chests," the buying frenzy was over. I think some of the problems with these mutual funds were the onerous fees that would, in some instances, take as much as 50% of the net profits from the investors to give it to the fund managers as incentive bonuses.

Although the rare coin boom of 1988-9 cannot be totally attributed to the fall of the U.S. dollar, the rare coin mutual funds were sold as a way for investors to get their assets out of U.S. dollar-denominated paper investments.

In general, as the value of the U.S. dollar declined from 1985 to 1995, many rare coins outperformed U.S. dollar-denominated paper assets and also gold and silver bullion.

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Where To Now?

The important thing to keep in mind is that most of the factors running up the prices of gold and silver have little to do with the fundamental supply and demand for the metals. Instead, it is a reflection of the weakness of the U.S. dollar, uncertainty over the value of U. S. dollar-denominated paper assets, as well as other worldwide problems.

Don't look at gold or silver as being worth a particular price. Instead, think of them as worth more or less compared to another asset. Right now people are plenty worried about the value of paper assets, and they should be.

Six months ago, I saw gold reaching $325 in the short-term, with a possibility of breaking up to $350. Now that gold has reached a near five-year high when it closed yesterday at $327.75, I am even more optimistic than I was six months ago. Gold at $400 this year is not out of the question.

As we saw after the U.S. dollar peaked in 1985, it took multiple years for gold, silver, and rare coin prices to reach their ultimate highs. I am confident that we are in the early stages of the next great bull market for precious metals and rare coins. Now is the time to buy, not sell.

Prices will not move in a straight line. There will be gradual rises, offset by periodic profit-taking. However, we have seen and will likely continue to see that these sell-offs do not knock prices down as far as the previous sell-off and that succeeding highs will exceed the previous high. That physical gold and silver markets are both experiencing fundamental long-term shortages makes this intermediate trend more likely to keep going.

The British Gold Auctions: An Assessment

From the summer of 1999 to March 2002, the British Treasury, through the Bank of England, auctioned off 12.7 million ounces of gold at an average price of $274.93. This represented over half of the British gold reserves.

Was the sale of this gold for $3.5 billion, and the manner in which it was sold, a good idea?

I submit that any way you look at it, the British gold sale was a loser.

#1. The manner in which the auctions were conducted was entirely different than other central bank sales. Typically, central banks don't want to knock down the price of gold in advance by advertising the coming sale. When the Bank of England originally announced the sales program, the price of gold dropped sharply, never to make a solid recovery until the auctions were over.

Almost certainly, the Bank of England would have realized a significantly higher price if it had quietly sold the gold, announcing the sales afterward.

#2. The last auction in March 2002 realized a price of $296.50. Since the British government had realized proceeds in prior auction that were 8% lower than the price of the final auction. It would have been better to have not sold it earlier.

#3. However, one needs to look at what the British government did with the proceeds of the sales. The Bank of England used the funds to purchase assets denominated in dollars, euros, yen, and other foreign currencies. As of the end of the auction, these paper assets had overall fallen in price about 7% from the time that they were purchased, even taking into account the income they generated. It would have been better to have kept the gold, although this outcome was not obvious going into the sales program.

#4. When Australia and Canada sold the overwhelming portion of their gold reserves, their currencies eventually lost 30-40% of their value against the dollar. By the end of the gold auctions, the British pound had lost 10% in value against the dollar. That resulted in billions of dollars (or pounds) in losses among holders of the pound and pound-denominated paper assets.

The idea for the sales and the way in which they were conducted almost guaranteed that the British government would inflict financial punishment on itself and its citizenry. Enough said.

Gold and Gold Coins

Gold closed today at $321.25, up $12.00 (3.9%) since early May.

When gold closed at $327.75 last night, it reached its highest close since it was $328.00 on October 14, 1997, almost five years ago!.

As you can see on the daily price chart on the back page, gold rose steadily in the past five weeks, with only minor declines a few times before today.

After the U.S. commodities markets closed yesterday, the Bank of Japan intervened to support the value of the dollar and keep the yen from rising further, their fourth intervention in the past two weeks. Today, short-term traders jumped on the opportunity to take some profits. I view this as a normal development in an overall bull market for gold, not as a sign that the gold price has hit a peak.

The World Gold Council reported that physical gold demand in India, the world's largest gold-consuming nation, dropped 40% in the first quarter of 2002 compared to 2001! First quarter demand in the rest of the world was up over year earlier numbers, led by a major rise in Japan and a modest increase in the U.S.

However, the drop in Indian demand, which is quite sensitive to rising prices, is not as large as it seems. One of my sources tells me that a large number of Indian citizens, fearing the calamities of a possible war, have been purchasing large quantities of gold for delivery in London and New York. Overall, gold demand is still healthy.

Not only was the gold spot price rising in May, so was the demand for physical gold. The premiums on many gold bullion coins are up from last month!

The U.S. **American Arts Medallion** (2.7%), and Austria **100 Corona** (2.8%) are still the lowest premium gold issues with the South Africa **Krugerrand** (3.0%) close behind. Some spot shortages have developed in obtaining supplies, especially for the Medallions.

The British **Sovereign** (6.1%) is still at a low premium for a smaller gold coin.

Rising gold prices have finally pushed up prices for many **Common-Date U.S. Gold Coins**. You can now purchase U. S. $10.00 Liberties in Extremely Fine condition for only about 20% above their intrinsic gold content. Expect further price increases because the supply of coins from European vaults has largely come to a halt—in part because of the fall of the dollar against the Euro!

Better-Date U.S. Gold Coins were difficult to find before the recent gold spot price increases. They are even scarcer today. However, we managed to locate small quantities of some **Better-Date U.S. Gold $20.00 Double Eagles**. See the enclosed flyer for details.

Silver and Silver Coins

Silver settled today at $4.94, up a strong 41 cents (9.1%) from last month.

When silver closed at $5.12 last night, that was its highest since it closed at $5.12 on May 4, 2000.

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The Month

GOLD RANGE $19.75 6.4%
NET CHANGE +12.00
SILVER RANGE .59 13.0%
NET CHANGE +.41
GOLD/SILVER RATIO 65.0
NET CHANGE -3.3
PLATINUM RANGE 37.00 7.2%
NET CHANGE +35.00
PLATINUM/GOLD RATIO 1.71

Date	Gold	Silver	Platinum
MAY 01	309.25	4.53	515.00
MAY 02	308.25	4.54	518.00
MAY 03	312.00	4.59	517.00
MAY 06	311.00	4.59	516.00
MAY 07	311.50	4.61	522.00
MAY 08	308.00	4.57	528.00
MAY 09	309.25	4.61	523.00
MAY 10	311.00	4.66	520.00
MAY 13	310.50	4.60	525.00
MAY 14	307.25	4.60	533.00
MAY 15	308.50	4.62	533.00
MAY 16	309.50	4.63	536.00
MAY 17	310.50	4.65	537.00
MAY 20	315.50	4.76	544.00
MAY 21	315.75	4.83	538.00
MAY 22	318.00	4.82	540.00
MAY 23	322.50	4.89	541.00
MAY 24	320.25	4.85	537.00
MAY 27	CLOSED		
MAY 28	323.75	4.86	545.00
MAY 29	325.25	4.94	544.00
MAY 30	325.50	4.97	550.00
MAY 31	326.50	5.02	546.00
JUNE 03	326.75	5.07	547.00
JUNE 04	327.75	5.12	552.00
JUNE 05	321.25	4.94	550.00

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,

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Higher silver prices seem largely to be a factor of the falling dollar and rising gold prices, rather than reflecting any significant news for the silver market.

CPM Group reported that the worldwide silver shortage in 2001 declined to "only" 100 million ounces, the smallest in years, but forecasts a much larger shortfall this year. If other news permits, I expect to do my updated annual silver analysis next month.

Physical silver volume, both buying and selling, was relatively quiet in May while more attention was devoted to gold and rare coins.

Higher silver prices helped bring down premiums on physical silver. The U.S. **90% Silver Coin** (5.6%) is our choice for the best value. It offers the lowest premium, greatest liquidity, and great divisibility. U.S. **40% Silver Coin** (6.0%) is actually up in premium from last month. The higher premiums for **100, 10, and 1 Ounce Ingots** (9.5-12.1%) make them cost 19-32 cents more per ounce of silver content than you would pay for 90% Coin.

The **Better-Date U.S. Morgan and Peace Dollars and Classic U.S. Silver Commemoratives** are among the hottest areas in numismatics right now. That makes a lot of sense to me. They are coins that had fallen more sharply than many other coins after the 1989 market peak. They could easily double or triple in price and still be well below their past peaks. Even though they may be up in price from earlier this year, they still represent great values. Our enclosed offering of the **Superb Gem Mint State-66 San Diego Commemorative Half Dollars** is a perfect example. See the flyer for details.

Competing Money Coming In the U.S.?

In 2000, after being considered part of the Cherokee tribe since 1866, Congress finally recognized the Shawnee Indian tribe, residing largely in Oklahoma, as a separate legal entity.

In a bold move, the Shawnee tribe has signed a contract to issue its own legal tender money!

The first coin to be issued has a face value of $1.00, matching American money. At first, it will only be struck in a 1 ounce silver coin in proof and uncirculated condition and sold to collectors. Later this year a circulating copper-nickel dollar will be issued. It will be legal tender on the Shawnee reservation, especially in their gambling casinos. A $5 gold coin is also planned. The 2002 coins will honor the Shawnee Chief "Shooting Star" Tecumseh. Designs will change annually.

Are these real coins or not? To me, they sound similar to existing casino tokens. Gambling is certain to be the major usage for the circulating pieces.

However, these coins can actually be spent elsewhere, unlike a lot of issues from countries such as the Marshall Islands in the Pacific and a number of Caribbean island nations. Thus, a case can be made to have these coins included in catalogs right along with other coins.

In addition, there is an angle that could make this coinage issue a successful program outside of the casinos. Coins with a Native American or Old West theme are quite popular in Japan and in Europe. I would not be surprised to see that most of these coins are exported.

If this program were a one-year flash-in-the-pan, I would ignore it. However, I think the design themes are likely to make this series a long-running success. Because they would be issued within the area of the United States, it wouldn't surprise me to see a collector base develop. We will have more details on the Shawnee coins as they come available.

Platinum Up 31% In 7 Months!

It seems that platinum has a hard time reaching equilibrium. When it dived to close at a low of $418.00 on October 31, 2001, it seemed obvious that the price had fallen too far in reaction to fears that industrial demand would decline because of the recession.

Since then, the price has recovered. It was recently supported by the May 13, 2002 report from Johnson Matthey that 2001 platinum demand set an all-time record of 6.15 million ounces and that, for the third consecutive year, platinum demand exceeded new supplies.

For more than the previous decade before 1999, new supplies of platinum each year exceeded the industrial demand. In some years, the investment demand absorbed this surplus, but overall the platinum market was in surplus for the long-term. Platinum demand was rising steadily, but supply was more than keeping pace.

Automotive catalysts and jewelry are the largest uses of platinum. The Chinese platinum jewelry market has soared in the past few years (including an 18% rise in 2001 over 2000) so that, all by itself, it now represents more than 20% of worldwide demand for platinum.

I have been lukewarm about platinum because of the long-term continuing surplus. However, I believe there has been a funda-

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