Liberty's Outlook

Volume 13 Issue 6 Liberty Coin Service's Monthly Review of Precious Metals and Numismatics June 6, 2007

A Prediction:

2011—The U.S. Dollar: R.I.P.

—Unless It Fails Before Then

In the past five weeks, we have seen a continuation of what I perceive to be the battle for the survival of the U.S. dollar.

The main strategy to prop up the dollar seems to be to try to knock down the price of gold, the dollar's major alternative. The easiest way to do this is to have central banks sell gold.

After selling about 1.3 million ounces of gold in March and April, the Spanish central bank sold almost a million ounces of gold in May.

The European central bank also states that another of its member central banks has been selling gold in the past few months, but did not name which one. Austria, Portugal, and the Netherlands are central banks that have sold gold in recent years.

So much central bank gold has been dumped onto the market since March that last week the European Central Bank announced that sales would have to cease in order to stay within the annual limits of the 2004 Central Bank Gold Agreement (CGBA).

Under the CGBA, the European Central Bank, the Swiss and 13 other European central banks, have agreed not to sell more than 500 metric tons (16.1million ounces) of gold each 12 months period from October 1 through the following September 30.

Other central banks such as the U.S., Japan, China, Russia, the Bank for International Settlements, the International Monetary Fund, and others have not signed the agreement but stated that they will align their gold sales with the CBGA.

Central bank gold sales fell far short of the limit in the 12 months ended September 2006, and even earlier this year total central bank sales for the current 12-month period were expected to be less than 13 million ounces.

Before I go on with the discussion of the precious metals versus the U.S. dollar markets, it is worth looking at the implications of Spain's economic woes—for the long-term outlook for the U.S. dollar.

Troubles In Spain

It is understandable that the Banco de Espana might be selling its gold for its own purposes. Spain's current account, the difference between the international flow of payments for exports and imports plus payments for services, interest, and private remittances (but not including capital flows), is now running at a 9.5% deficit of the nation's Gross Domestic Product (GDP).

In early 2002, Spain's central bank had gold and foreign exchange reserves of 41.5 billion Euros. Since then reserves have fallen to 13 billion Euros, leaving the central bank with barely enough Euros to cover everyday international commerce.

Talking about the current account deficit, which reached 8.6 billion Euros in January, Alberto Mattelan, an economist at Inverseguros in Madrid said, "We have the worst deficit in our history and worse than any other country in the western world. . . . This will turn bad over the next 18 months."

Construction in Spain accounts for almost 18% of GDP, which is even higher than the 15% of GDP peak in Germany after the reunification of East and West Germany.

A housing slump is developing there as

2007 Year To Date Results

Through June 5, 2007

Precious Metals		
Platinum		+13.8%
Palladium		+9.6%
Silver		+7.2%
Gold		+5.4%
Numismatics		
MS-63 $20.00 St Gaudens		+2.4%
MS-63 $20.00 Liberty		-0.5%
MS-65 Morgan Dollar		-8.0%
US Dollar vs Foreign Currencies		
Japan Yen		+2.0%
Switzerland Franc		-0.1%
Great Britain Pound		-1.7%
China Yuan		-2.1%
Euro		-2.4%
India Rupee		-8.6%
Canada Dollar		-8.8%
U.S. Dollar Index	81.89	-2.0%
US and World Stock Market Indices		
Frankfurt Xetra DAX		+20.1%
Dow Jones Ind Average		+9.7%
S&P 500		+8.5%
Russell 2000		+8.4%
NASDAQ		+8.2%
London FT 100		+6.6%
Tokyo Nikkei 225		+4.8%
Intrinsic Metal Value Of U.S. Coins		
Lincoln Cent 1959-1982		2.32¢
Lincoln Cent 1982-date		0.98¢
Jefferson Nickel-non-silver		9.04¢
Roosevelt Dime 1965-date		4.10¢
Wash Quarter 1965-date		10.25¢
Kenn Half Doll 1971-date		20.50¢

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interest rates have risen, so the outlook for the Spanish economy is for things to get worse rather than better.

These problems have developed even though the Spanish government's budget is running at a small surplus.

Spain's central bank is extremely limited in what steps it might take because the country has adopted the Euro for its currency. That means that many fiscal policies are beyond its control. It cannot simply issue whatever quantity of inflated currency it wants. It is limited as to what kinds of steps and to what degree it may try to rescue the domestic economy.

About all the central bank can really do is allow the economy to deflate. Once this happens, then the lower material and labor costs will attract more business capital. Until this retrenchment occurs, though, the Spanish citizenry are going to suffer losses of jobs and lower-paying jobs that will make it difficult for most of them to maintain their present standard of living.

The European Central Bank simply has no mechanism in place to rescue any member nation's economy. To adopt them would require widespread agreement among the member nations.

At worst, the financial troubles in Spain could lead to an economic crisis across the entire Euro zone, potentially putting the survival of the Euro in doubt. Spain is not the economic powerhouse like Germany, France, or Italy, but neither is it one of the small economies in the Euro zone.

The European Central Bank has to be very careful at whatever it may try to do for Spain as that would set a precedent of what it might be expected to do for other countries in the same position (Portugal and Greece have the same problems, though to a lesser degree). The troubles in Spain could potentially lead to the failure of the Euro as a viable currency.

In too many respects, the economic problems in Spain are demonstrating what lies ahead for the United States economy and the dollar.

The Dollar? Or Gold?

The U.S. dollar is suffering from a long list of problems. Here are some of the more significant ones.

- First of all, it is a fiat currency. In other words, it is backed by nothing at all other than the hot air promises of U.S. politicians (i.e. the full faith and credit of the U.S. government).
- Second, the U.S. money supply is now growing by at least 10% per year, and the efforts of the U.S. government to conceal this information have failed. The U.S. government stopped reporting the M-3 definition of money in March 2006, a definition of currency which would make it easier to track large quantities of U.S. dollars that other central banks were shipping back to the U.S. Several analysts are smart enough to reconstruct this information anyhow.
- Third, the increase in the money supply represents surging inflation, even though official government statistics try to present an image of low to moderate inflation. By itself, this inflation will destroy the value of the U.S. dollar over time.
- Fourth, the U.S. economy has a trade deficit at so a high percentage of GDP that no other major nation has managed to sustain for more than a few years before its currency failed. This deficit has been growing as a percentage of GDP
- Fifth, the U.S. federal government is running record budget deficits. There are no signs that this will be reversed soon.
- Sixth, the value of the dollar is now mostly being propped up by the willingness of China, Japan, and other (mostly Asian) nations purchasing U.S. government debt, averaging about $2 billion every day. However, several nations have openly announced that they are shifting the accumulating reserves away from the U.S. dollar into other currencies and gold.
- Seventh, the U.S. government is mired in two wars in addition to heightened worries about terrorist activities.
- Eighth, even though it may look like the stock markets are returning handsome results, the American stock markets have barely been able to offset the decline in the value of the dollar over the past couple of years. An investor whose stock has increased 10% in the past two years has actually lost ground as the dollar has dropped by more than that over that time.
- Ninth, both gold and silver are in fundamental long-term supply shortages. Every year for more than 15 years now, industrial and investor demand has exceeded new supplies from the mines, recycling, and government sales. Only the draw down of existing inventories has kept prices temporarily down.
- Tenth, the present value of the current debt of the federal government is more than $50 trillion. This includes the liabilities owed for Social Security and Medicare benefits. The debt load is so large that even the Comptroller of the U.S. Currency and the Congressional Budget Office have declared the U.S. government bankrupt.

Along with other problems, there are plenty of reasons for Americans and foreigners alike to fear that the U.S. dollar will continue its downward slide.

Even though the U.S. dollar is being massively supported by many Asian and other central banks, it has still slipped 2% this year against a market basket of other currencies. In addition to those listed in the chart on page one, thus far in 2007 the dollar has lost 5.7% versus the Australian dollar, 7.3% to the Thai baht, 3.5% to the Malaysia ringitt, 9.0% to the Brazil real, 6.8% against the Philippines peso, and 6.0% to the New Zealand dollar.

It has taken the sales of massive continuing amounts of central bank gold to knock down the price of gold $35 this past month.

Yet all it took was for the European Central Bank to announce that its central bank gold sales would stop until October for the price of gold to jump $18 in just two days last week!

Right now, there is much negative sentiment about the short-term future of gold. One brokerage is even forecasting that gold could fall as low as $450 from current levels.

There is also the concern of investors that, after breaching $700 gold and $15 silver briefly last spring, neither metal has been able to regain or pass those levels.

There is also the trend of the past few years where precious metals prices have generally stagnated for the summer, started rising late in the year, and peaked in the spring. If this trend repeats this summer, why would an investor want to buy right now?

Gold And Silver Are In The Second Leg Of A Long-Term Bull Market

In general, bull markets in gold (and silver) have three distinct segments or legs.

In the first leg, smart individual investors review the supply and demand fundamentals and realize that precious metals are undervalued. They quietly start buying before the investment professionals enter the market. This first leg lasts a long time. This time, it looks like it started in 2000 and ran to late 2005.

During this time gold and silver prices nearly doubled without much fanfare.

Once this positive track record had been established, brokers and investment profes-

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sionals began to shift some of their investment money into precious metals. This, which I call the second leg of the bull market, started to happen in noticeable volume in late 2005. Normally, this would be the longest of the three legs. Since the first leg lasted five years this time around, the points to this leg running maybe six years total, until 2011.

During this second leg, look for prices to roughly double again.

You will know when the third and final leg of the bull market has started when gold and silver are being touted by taxi drivers, your neighbors, strangers in elevators, and even stock brokers. Once everybody in the world is excited about owning gold and silver, prices will move fast. Prices could easily double or triple within two years.

Under this general scenario, I am predicting gold to eventually reach $2,000 to $3,000, and silver to hit $40 to $60. As you can see, gold and silver prices today are still a tiny fraction of those targets. It is not "too late" to buy them from the perspective that they have already more than doubled in price over the past several years.

While I'm telling you that it's not too late to buy gold and silver, I am also telling you that you are likely to be better off buying sooner rather than later. We may hit the summer doldrums this year—but we may not.

Just as we saw the price of gold jump 3% in 48 hours last week, gold and silver prices could start to take off at any time, especially if the U.S. dollar takes a major tumble.

I am sure that there is a lot of political arm-twisting going on behind the scenes to support the value of the U.S. dollar. If some of these actions are disclosed to the general public, the reaction could quickly clobber the value of the U.S. dollar.

Every fiat currency ever issued has eventually failed. Even though the U.S. dollar has survived 36 years since president Nixon closed the gold exchange window, there is no magic reason that the U.S. dollar should be exempt from this trend.

There are so many factors pointing to the potential failure of the U.S. dollar, that I think (and it gives me no joy to say this) it is no longer a question as to whether the dollar will fail. I think it is a question of when.

Even though it looks to me that the dollar is doomed, the U.S. government still has awesome resources available to support the dollar as long as possible. It can also exert major behind-the-scenes political and economic pressure to get support from others. But that only will delay the end, not prevent it.

If I just looked at the weakness of the U.S. dollar, I fear it may collapse by 2009. If it holds out until the peak of the third leg of the gold and silver market, it could last until 2013 or 2014. So, to average the affect of these two trends I make my prediction that the U.S. dollar will fail in 2011.

The only problem with that prediction is that it could happen sooner (or, yes, even later). I continue to recommend that the prudent investor look to own as much as 20% of his or her net worth in hard assets such as gold or silver or rare coins. As platinum and palladium are both markets that are in balance or in supply surpluses, I don't generally recommend holding them for insurance purposes.

Rare Coins—Twisting In Two Directions

In decades past, the cooler seasons of late autumn through early spring were the prime times for coin collectors. Warmer weather often meant outdoor activities while cold weather kept one inside to enjoy indoor hobbies.

At last week's huge Long Beach Exposition in California, LCS Chief Numismatist saw once again the strength of demand for better-date coins, many key-date coins, and scarcer types of coins.

However, he did notice a surprising trend among a number of dealers. They seemed to be anticipating a summer malaise as we would see in decades past, and wanted to avoid stocking run of the mill coins. This attitude could be partly influenced by the tendency of the precious metals markets to be quiet in the summer during the past few years.

Whatever the reasons, Allan took advantage of this partial lull in buying demand to snap up some real bargains. That also made him think of the reason why he was able to make such a favorable purchase of a large quantity of **Mint State Rolls of 1922 Peace Silver Dollars.** We are able to pass along some extra special savings on these coins this month. At shows in the next few months, we will be keeping our eyes open for even more bargain deals for you.

I anticipate that by autumn, this lull will long be over.

Barrick Gold—The Largest Derivatives Loss In History!

Last month, I passed along information from Barrick Gold Corporation, the world's largest gold mining company, that it had absorbed a loss of $557 million in the first quarter of 2007 to close out about 2 million ounces of pre-sold gold contracts. The news was so fresh that I misinterpreted part of the news release as a statement that Barrick had completely closed out its pre-sold gold contracts.

Well, that turned out not to be true. Even after closing out a smaller quantity of pre-sold contracts in April, at a loss of $68 million, Barrick still owes 9.5 million ounces to close out remaining pre-sold gold contracts. That is more gold than the company produces in one year!

One analyst figures that Barrick has already booked $3 billion in losses closing out pre-sold contracts over the past several years. If you compare the current price of gold against the price at which gold was sold under the pre-sold contracts still open, Barrick has an unrealized loss on its books of about $3.5 billion. The total of $6.5 billion in losses in these derivative contracts exceeds the former record of $6 billion in derivative contract losses sustained by the Amaranth hedge fund last year.

The losses already booked along with the unrealized losses yet to be booked exceed all profits that Barrick has earned over the company's history!

The potential for even greater losses is very real. Every time the price of gold rises by $1.00, that means that Barrick's potential loss increases by $9.5 million.

With the potential risk of such huge losses from owing gold stocks, a potential investor has got to be exceedingly careful. Or, to be safe, you might be better off simply purchasing physical gold instead of gold mining stocks.

Gold and Gold Coins

Gold closed today at $669.00, down $3.50 (0.5%) increase from last month.

The price of gold has been stronger than I would expect, given the amount of central bank sales and the general negative outlook for gold. This relative strength indicates to me that we are closer to a break out on the high side rather than a declining market.

My top recommendations for physical gold continue to be the lower premium coins such as the Austria **100 Corona** (2.9%), South Africa **Krugerrand**

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(2.9%), U.S. **American Arts Medallion** (3.0%), and Mexico **50 Peso** (3.0%).

Premiums on many circulated **Common-Date U.S. Gold Coins** are up slightly from last month while higher grade coins are mostly a bit cheaper. On the other hand, demand for **Better-Date U.S. Gold Coins** just seems to be getting stronger. Allan Beegle purchased a lovely collection almost entirely of Better-Date U.S. Gold Coins for just under $100,000 in May. Virtually every coin was sold within 24 hours to the first customers we called. See our offering for some other one-of-a-kind beauties are bargain prices. Then place your order quickly.

Silver and Silver Coins

Silver ended today at $13.66, a 45 cent (3.4%) jump from five weeks ago.

As with gold, silver experienced some quick increases and decreases in May.

I continue to urge that you purchase physical silver and take delivery of it. Once it is in your possession, a third party is not going to be able to commingle it, loan it out, move it to another vault, and otherwise make it difficult or impossible for you to later gain possession of it..

The low premium form I recommend is U.S. **90% Silver Coin** (0.2%). It is the most widely traded, most liquid, most divisible, and most recognized form of physical silver that you can own in this country, as well as costing you the least per ounce!

The premium on U.S. **40% Silver Coin** (0.0%) is attractive, but it has several disadvantages: you have to pay a lot more to ship the 60% copper nickel content and it takes over double the storage space to hold the same amount of silver as 90% coin. The **100-1 Ounce Ingots** (2.6-3.7%) cost 32-47 cents per ounce more than 90% Coin, but are worth considering if storage space is a serious problem.

In addition to the Mint State 1922 Peace Dollars mentioned earlier, we have acquired two other special bargain deals. The **Mint State Canada 1967 Goose Dollars** sell out every time we offer them. Even though we purchased two groups of them, I doubt there is enough to go around.

In addition, we offer a small group of **Gem Mint State-65 1936 Long Island Commemorative Half Dollars.** These are among our most recommended of the Classic Silver Commemoratives for appreciation potential. Please see our enclosed offerings.

Be Careful With Hard Assets Held By Brokers Or Stored In Safe Deposit Boxes

One of our customers recently showed us the fine print at the bottom of his Merrill Lynch brokerage statement. The statement confirms that cash, equities and other securities held for the customer in the Merrill Lynch account are "insured" by the Securities Investor Protection Corporation (SIPC) against the risk of failure of the brokerage or against theft by the brokerage or its staff. However, this assurance goes on to state that precious metals and other physical commodities held by Merrill Lynch for the customer are explicitly not covered by SIPC as they are not equities.

Some hard asset purchasers, especially those who live in the 23 states that impose sales and use taxes on the purchase of rare coins and precious metals, choose to acquire physical gold or silver and have it stored by their brokerage firm as a way to avoid the taxes. If this is your circumstance, you may want to consider the need to obtain your own insurance coverage against the risk of loss of such assets.

Better yet, you may want to take delivery of your hard assets so that you don't have to worry about whether your brokerage and its staff are always solvent and honest. You may find, as some of our customers have told us over the years, that the costs to take delivery are so high that it was less expensive to sell the gold or silver held by the brokerage, then purchase and take delivery of the same items from LCS.

I also want to remind you that the "insurance" offered by the Federal Deposit Insurance Corporation (FDIC) to protect a bank's account holders does not cover any contents in safe deposit boxes. If you have significant assets stored in a safe deposit box, you may want to obtain your own insurance coverage to protect them. Safe deposit boxes tend to be fairly safe from theft so that rates for coverage are pretty reasonable.

The Month

Gold Range	35.00	5.2%
Net Change	-3.50	
Silver Range	.95	7.2%
Net Change	+.45	
Gold/Silver Ratio		49.0
Net change		-1.9
Platinum Range	82.00	6.4%
Net Change	+1.00	
Platinum/Gold Ratio		1.92

Date	Gold	Silver	Platinum
May 02	672.50	13.21	1,286.00
May 03	681.75	13.39	1,298.00
May 04	687.00	13.43	1,318.00
May 07	688.00	13.51	1,337.00
May 08	685.00	13.48	1,330.00
May 09	680.25	13.35	1,321.00
May 10	665.00	13.04	1,311.00
May 11	670.50	13.21	1,328.00
May 14	668.50	13.14	1,319.00
May 15	673.00	13.22	1,326.00
May 16	660.50	12.85	1,311.00
May 17	656.25	12.81	1,303.00
May 18	661.00	12.94	1,311.00
May 21	662.50	13.05	1,301.00
May 22	659.00	12.92	1,279.00
May 23	662.00	13.04	1,297.00
May 24	653.00	12.85	1,282.00
May 25	655.00	12.85	1,272.00
May 28	closed		
May 29	657.00	13.16	1,255.00
May 30	653.00	13.15	1,258.00
May 31	661.00	13.41	1,272.00
Jun 01	671.00	13.68	1285.00
Jun 04	670.50	13.68	1,289.00
Jun 05	669.50	13.76	1,286.00
Jun 06	669.00	13.66	1,287.00

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