Liberty's Outlook

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Gold Supplies Plummet, Price Jumps!

Page 2: 1999—Worldwide Gold Demand Sets New Record!
Page 4: 2000-dated Silver Eagle Dollars Soar In Price!

On February 10, gold closed at $315.00, its highest close since October 11, 1999.

On February 4, silver closed at $5.50, its highest close since October 13.

Platinum settled at $541.00 on February 16, its highest close since early 1989.

Palladium rocketed over 66% in only three weeks, reaching an intraday high of more than $835 before settling at $815 on February 23

Some of the reasons for strong precious metals prices in February were unique to the particular metal.

Palladium: Let's take palladium first. A member of the platinum group of metals, palladium used to trade at one-fourth to one-half the price of platinum. Because of this cost advantage, manufacturers have been gradually substituting palladium in place of platinum in several industrial applications.

There was just one problem with palladium—about 2/3 of the world's supply comes from Russia. Because of bureaucratic foot dragging, Russia has exported little palladium since the end of 1998!

At the beginning of 1998, the last time that "normal" palladium markets existed, the spot price was a little over $200. At the end of 1998, after Russian exports had been disrupted for half of the year, the price reached $340 per ounce. Tight supplies led prices to rise to $440 at the end of 1999.

In the past few weeks, when it became obvious that Russian exports were delayed yet another few months, prices took off.

With daily price increases of 5-10% in mid-February, Comex officials imposed stricter margin requirements and the Tokyo Commodities Exchange (TOCOM) instituted a trading freeze. When traders were forced to close a number of open positions, the market fell, but still remains at over 80% of its all-time high of two weeks ago.

The palladium market is treacherous. It is dominated by one major supplier and demand is concentrated in a cartel of Japanese manufacturers. Trading is comparatively thin, spreads are wide, and markets continue to be extremely volatile. For all of these reasons, I do not recommend an investment in palladium at these levels.

With palladium trading at higher prices that just about anyone's wildest dreams, future appreciation seems limited and highly risky. Therefore, if you own any palladium, you may want to take your profits. However, don't be surprised if you only receive 80-90% of the spot price for your palladium bars and coins.

Platinum: Platinum has followed the same trend as palladium, but to a lesser degree. The Russian bureaucracy continues to hold up platinum exports. However, with Russian exports normally accounting for only 15-20% of worldwide supply, the impact is less dramatic than it is for palladium.

Again, as Russian exports were delayed for perhaps another few months, prices climbed early this year. From January 10 to February 17, the price of platinum rose 37.3%!

Then, when Russian officials said that exports might begin within two weeks, platinum gave back half of its year-to-date gains.

From the mid-1980s until recently, newly mined platinum supplies exceeded industrial demand every year.

Today, even excluding the vagaries of Russian exports, the platinum market has shifted. Beginning in 1997, industrial demand finally topped mine production. That trend is likely to continue for at least a few years.

Because the platinum market is thinner than that for gold and silver, and because the other two metals have a longer track records of mining supply shortages, I am not wildly enthusiastic about platinum's future prospects.

It will likely appreciate in the future. But if it does, I think gold and silver will do even better. For that reason, I would consider platinum for only a small percentage of my hard asset holdings.

In the short-term, I think there is some risk for platinum to decline further. If you are considering adding platinum, I think the best time to buy platinum will be right after the Russians actually resume exporting regular shipments. With the suspense about "when" removed, a lot of short-term speculators will abandon the market, leaving the price to find a solid base.

Silver: For most of February, silver followed the lead of other metals, especially gold. Toward the end of the month, though, prices declined. Comex inventories increased several million ounces unexpectedly, with rumors flying that the total increase could reach 30 million ounces soon.

I do not know the source of this new Comex inventory. At the most pessimistic, it represents previously unknown supplies. More likely, it is simply known inventory transferred from another location..

If it turns out that the appearance of this silver is merely a shift of inventory rather than an outright increase in previously known supplies, I urge you to take advantage of this temporary price dip to add to your holdings.

Should the increased Comex silver holdings turn out to be completely new sup-

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plies, it will have little effect in the long term. I think that, at the worst, it will only postpone what I see as the inevitable strong rise in the price of silver. Even in this circumstance, I think the temporary dip in silver's price presents a bargain buying opportunity.

Gold: Gold experienced the greatest number of ups and downs during the month.

- On Friday, February 4, the price of gold soared $23.00 (8.0%) to close at $310.00 when the world's fifth largest gold producer, Placer Dome, announced that it would suspend its hedging activities and would reduce existing forward sales by 2 million ounces by the end of the year. The company urged other gold mines to take advantage of almost certain higher prices in the future by cutting back their hedge programs.
- On Monday, February 7, Barrick Gold Corp., the world's fourth largest gold producer, caused a partial reverse in the gold price when it announced that it was only revising but not halting its hedging program. However, the company did reveal that over the prior several months it had reduced the amount of future production already sold from five years down to about three years' worth. After trading below $300 for part of the day, gold closed in the U.S. at $301.50, a decline of $8.50 (2.7%).
- On Thursday, February 10, the world's largest gold producer, AngloGold, Ltd. of South Africa, announced that it had cut back on hedging operations. Gold jumped $9.50 (3.1%) to close at $315.00.
- Then on Tuesday, February 15 it was announced that Ashanti Goldfields of Ghana had restructured their hedging operations so that they could trade without any margin requirements! Gold dropped $6.00 (2.0%) to close at $301.50.

Ashanti has been bankrupt from hedging losses since the price of gold rose sharply last fall. It has already sold much of its future production at prices below what it would now cost to close out.

With banks standing to lose tens to hundreds of millions of dollars if Ashanti failed, they simply chose not to foreclose on the company. The company's continuing huge exposure to hedging losses makes sudden quick jumps in the price of gold an everyday possibility. Now, not only have the banks chosen not to take their losses, they are even making it easier for a poorly-run operation to risk increasing the size of these losses!

As I discuss below, I consider now to be a prime time to add to your gold holdings for significant possible appreciation.

Why Banks And Brokerage Firms Have An Incentive To Hold Down Gold Prices

Banks and brokerage houses make millions in fees each years selling hedging contracts to mining companies.

As long as the price of gold remains steady or actually declines, hedging operations can increase a mining company's bottom line. Here's how.

Assume that Mining Company A produces one million ounces of gold per year at a cost of $290 per ounce and that gold holds steady at $300 per ounce. At that rate, the company makes $10 million profit per year.

The company might lease perhaps three million ounces of gold from a central bank, arranged by a bank or brokerage firm. Gold leases rates are among the lowest around. An annual lease rate of 1% is typical.

Company A could then sell this leased gold, take the $900 million proceeds and put it into U.S. Treasury instruments that pay 5%. Over the year, Company A would take in $45 million in interest income while paying only $9 million to lease the gold. In this example, the company's original $10 million profit jumps to $46 million.

If the price of gold declines in the meantime, the mine can further augment its profits by replacing the leased gold at a lower price than it realized upon the initial sale.

This scenario has played out for much of the past decade. The gold mining companies with the best profits generally have been those who have been most aggressive at selling their future production.

Hedging operations theoretically can be rolled over in perpetuity. However, leased gold has to be repaid if called, with a rising gold price being one reason for a margin call.

Let's go back to the example cited above. If during the year that Company A leases the gold the gold price rises to $330, the company faces an outright loss of tens of millions. With the concern that the mining company may not be able to make good on its lease, the banks, brokerage firms, and central banks all have an incentive to make margin calls and perhaps even call in

Did You Know?

Worldwide gold demand in 1999 set an all-time record according to the World Gold Council. In the markets they study, which account for about 85% of global figures, demand totaled 105.4 million ounces. This was an increase of 21% over 1998 and 7% above the former annual record set in 1997.

Even though high prices at the start of the fourth quarter of 1999 put a noticeable crimp in demand, fourth quarter demand was still the third highest for any quarter ever!

Nations setting annual demand records in 1999 included India and the United States, the first and second largest gold consuming countries. Other major gold consumers that set annual records included Indonesia (6th largest consumer), Egypt (7th largest consumer), and Pakistan (8th largest consumer). Additional nations setting annual records included Mexico (12th largest consumer), France (14th largest consumer), and Vietnam (20th largest consumer).

The top five gold consuming nations in 1999 were India (27.0 million oz), the US (14.8 million oz), China (6.6 million oz), Saudi Arabia (6.4 million oz), and Turkey (4.5 million oz). Demand in 1999 declined in the Middle East because of low petroleum prices early in the year. Demand dropped 19% in Turkey as it suffered devastating earthquakes that also crippled its tourist trade.

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the entire lease.

Normally you would expect a hedge contract to protect a mining company against adverse price moves. Unfortunately, mining companies have paid more attention to profiting on the spread between Treasury Bill rates and gold lease rates than to the terms of the hedge contracts they have signed.

For example, one of the best selling hedge contracts is called a "knock-in option." As many mining companies have recently realized to their financial dismay, the knock-in option eliminated the opportunity for the producer to benefit if gold prices rose while providing absolutely no protection if prices decline in the future!

If a significant number of mining companies curtail their hedging operations, that will have two serious effects on banks and brokerage firms. First, the fees they collect for providing such services will greatly diminish. Second, by reducing physical supplies on the market (as newly mined gold is sent to central banks rather than sold for industrial, jewelry, or investment purposes), gold prices are likely to rise sharply. These higher prices run the risk of bankrupting the banks' and brokerage firms' remaining hedge clients, possibly leaving the banks and brokers with worthless securities.

Given the difference between huge profits with gold prices holding steady or declining versus potential bankruptcy if prices rise, banks and brokers have every incentive to keep the price of gold from rising!

There are rumors identifying specific banks and brokerage houses using their financial and political clout to manipulate downward pressure on gold prices. I'll wait for the lawsuits, especially the one filed by the Gold Anti-Trust Action Committee (GATA), to settle whether this manipulation is in fact occurring.

Hypothetically Speaking

However, let me just speculate for a moment. If I were planning such a manipulation, I would allocate my resources at the margins of the market to carry the most impact.

For example, I would enter a lot of sell orders just before the close of the Comex, a much smaller market than in London. The signal of a weak close might scare some potential bulls, especially if it happened almost every single days for several weeks.

I might even, as has actually been done at times, try to knock down prices in what is considered to be a parallel market. In this instance, I might add an extra 30 million ounces of silver into Comex inventories from an unknown source, because a lot of traders believe that the gold and silver markets regularly move in the same direction.

This discussion is hypothetical because, even though this is what actually happened to the gold and silver markets in February, I do not specifically know why it happened this way.

Scenario #1: If there has been some concerted gold market manipulation in the past, the price jump last fall and again in the past few weeks now tell me that market fundamentals are overcoming such manipulations. If so, we could be seeing the last-ditch, desperate efforts by some major banks and brokerage firms to preserve their financial gravy train. If it is true that as much as 300 million ounces of short contracts might need to be covered (as posited by researcher Frank Veneroso), a sharp rise in the gold market could come at any time.

Scenario #2: Alternatively, the market events of the past month could just be typical random happenstance. If so, they demonstrate that gold has much higher likelihood of rising over the balance of 2000 than the risk of any significant decline.

Either way, the appreciation prospects for gold are mighty attractive. Even though gold was a much better value last summer in the $250s, I think today's levels will also be considered a bargain in the not-too-distant future.

Difficult-To-Find Collector Coins With Strong Appreciation Potential

When attending coin shows, we literally examine thousands of coins that other dealers have in inventory. The most important reason to do so is to find coins for customer want lists or special deals for future offers.

Another important element of examining other dealers' inventories is to keep current on what coins are readily available, which are difficult to find, and which are becoming easier or harder to locate than they used to be.

This information is vital because the coins that become far more difficult to find than they were in years gone by are often the ones that have strong appreciation prospects.

A few weeks ago, I attended the huge Long Beach Exposition in California. As I examined dealers' inventories and picked their brains, I tried to identify coins that are a lot less available today than they were in the recent past.

Here is my non-exhaustive list:

- Better-Date Morgan and Peace Dollars priced from $50 to $500
- Better-Date U.S. Gold Coins priced under $800
- Bust Dollars in all dates and grades
- Mint State Braided Hair Half Cents
- U.S. Silver Commemoratives from 1892-1954 in almost all grades
- Mint State Rolls of U.S. Silver Dimes, Quarters, and Half Dollars
- Key-date U.S. coins that are in nicer than average condition but less than top quality
- High circulated grade U.S. Type coins from the 1800s

There are more categories than this, but those listed above are a good start. If you are looking for rare coins to own that are good candidates for appreciation in the next three years, I suggest looking at the categories listed above.

Gold and Gold Coins

Gold closed today at $291.25, up $6.25 (2.2%) from last month.

When the price of gold shot up over $300 on February 4, that brought a new wave of sellers into our store. As a result, the following week was our highest volume week since the bullion boom of 1979-80!

When wholesalers and refiners were deluged with gold coins and ingots, they widened their buy/sell spreads, and even started quoting two different spot prices. When asked, they quoted a lower spot price as their buying spot and a higher spot for selling.

Selling continued as long as the price of gold stayed above $300. Once it fell below $300, most liquidations stopped.

In January there was almost no retail demand for gold coins. Demand picked up to near normal levels in February as buyers took advantage of low premium bargains.

In the past few days, wholesalers have begun to increase their buy/sell formulas over those used earlier in the month. For

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instance, they are now paying a smaller discount below gold spot to buy back U. S. **American Eagles** (3.0%)

After January's drop in premiums for a number of gold coins, premium levels were relatively stable in February. We could see some premiums inch back upwards in March as the number of sellers declines and more buyers appear.

The best buys continue to be the Austria **100 Corona** (2.0%), U.S. **American Arts Medallion** (1.8%), and South Africa **Krugerrand** (2.2%). Even the American Eagles are attractive at levels below what the primary distributors are paying to buy them from the U.S. Mint.

The best values in small size gold coins, include the British **Sovereign** (5.4%), French **20 Franc Rooster** (6.2%), and Swiss **20 Francs** (6.2%).

Higher gold prices immediately boosted the prices for **Common-date U. S. $20.00 Double Eagles**. Rising gold prices did not have the same effect on smaller-sized coins. I took advantage of this anomaly to scoop us some lovely **Mint State-61 $10.00 Liberties dated in the 1880s** for the same price as later, more common issues.

Better-date U.S. Gold Coins become ever more difficult to find. Last month I discussed finding a few pieces of 1915 $20.00 Saint Gaudens in MS-62 quality at the FUN show in Orlando. I did not see a single specimen of this date in any grade in Long Beach!

Bargains in foreign gold coins can be found, but it helps to have a lot of contacts. We managed to get such a good buy on **Mint State 1919-C Canada Sovereigns**, that we can offer them for a lower price than we have ever offered the less rare 1911-C issues in the past 21 years! See our offer for details.

Silver and Silver Coins

Silver closed today at $5.08, down thirteen cents (2.5%) from a month ago.

As silver prices did not rise as dramatically as gold in early February, there was no surge in liquidations.

As I predicted last month when U.S. **90% Silver Coin** (1.6%) was selling at a discount to its silver value, demand increased. It is now selling at a small premium again. However, it still trades wholesale for less than silver value. Until the retail premium rises to 2%, 90% Coin will be purchased by refiners to help fill strong industrial demand for silver.

Bags of 90% coin still have a significant price advantage over other low premium silver forms such as U.S. **40% Silver Coin** (9.4%), and **100, 10, and 1 Ounce Ingots** (3.9%-10.8%). Since 90% Coin is also the most widely traded form of physical investment silver, has the greatest liquidity, and is extremely divisible, I see little reason to buy any other form.

Last month I warned you to expect continuing weakness in the price of **average circulated, common-date U.S. Morgan and Peace Silver Dollars**. Since then, the price has declined almost 6%. Although prices are a lot more reasonable today than a year ago, I think it still has further to fall.

U.S. Silver American Eagle Dollars (73.8-113.2%) with the 2000 date are up dramatically over the past month. A huge percentage of the Mint's February sales have gone to Europe to meet heavy demand there. Wholesalers are currently offering coins for slow delivery, even as late at the end of April. If you are looking to add some to your holdings, I think prices may be more reasonable in mid-summer. By then, we should be past the June graduation and wedding period of peak demand.

Other dates of Silver Eagle Dollars have also appreciated as new collectors of States of the Union Quarters are expanding the scope of their collections.

As I discussed earlier, there are a number of categories of U.S. silver numismatic coins that are hard to find and, therefore, have attractive appreciation potential. Our offering of **Better-Date Morgan Dollars** is a perfect example.

The Month

Gold Range	$ 30.00	10.5%
Net Change	+6.25	
Silver Range	.46	8.8%
Net Change	-.13	
Gold/Silver Ratio	57.3	
Net change	+2.6	
Platinum Range	91.00	19.5%
Net Change	+1.00	
Platinum/Gold Ratio	1.60	

Date	Gold	Silver	Platinum
Feb 02	285.00	5.21	466.00
Feb 03	287.00	5.26	474.00
Feb 04	310.00	5.50	479.00
Feb 07	301.50	5.25	475.00
Feb 08	299.00	5.30	498.00
Feb 09	305.50	5.39	525.00
Feb 10	315.00	5.38	517.00
Feb 11	309.50	5.31	524.00
Feb 14	307.50	5.25	517.00
Feb 15	301.50	5.25	525.00
Feb 16	302.00	5.28	541.00
Feb 17	301.00	5.25	529.00
Feb 18	304.50	5.26	500.00
Feb 21	closed		
Feb 22	305.00	5.27	508.00
Feb 23	300.00	5.24	472.00
Feb 24	298.25	5.16	468.00
Feb 25	292.50	5.04	450.00
Feb 28	292.25	5.06	462.00
Feb 29	292.25	5.06	472.00
Mar 01	291.25	5.08	467.00

London Silver Market Premium Over New York Silver Market = 1¢

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

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