Liberty's Outlook

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The Trillion Dollar Financial Meltdown?

Last month I alerted readers to a number of brewing financial crises, any one of which could wreak major havoc upon the American and world economies.

In the four weeks since, the world has not fallen apart. In fact, judging by the positive trends in U.S. and world stock markets over the past month, and the relative stability of currencies (see table at right), one might be lulled into a false sense of security. After all, if things were really so scary, then you should see some evidence of it somewhere.

Well, there is one warning sign. The price of gold over the past four weeks has averaged over $297, the highest for a four week period since February 2000!

Yesterday's Bank of England gold auction, the final sale of the three year program, cleared at $296.50, the highest price ever realized by the Bank.

Investor demand for physical gold, especially in Japan, has been especially strong. Major dealers in Japan report gold bullion sales volume is 5-10 times that of year-ago levels!

There were only two small dips in the price of gold in the past month.

1) Two weeks ago when an official of the German central bank said that sales of their gold reserves were a possibility. This dip was reversed on February 26 when the official admitted that such sales could not start before 2004 because of the terms of the 1999 Washington Agreement.

2) Yesterday when the Bank of England auction did not realize a gold price above $300, some short term traders took that as an opportunity to try to knock the price down. Although gold slipped a few dollars, continuing physical demand prevented a major drop.

I covered a number of the potential crises last month. Rather than go over them again, let me just highlight new developments.

New Developments To Watch Carefully

1. Japan. Japan's, weak stock market that reached an 18 year low last month and a weakening Yen has several underlying factors.

Japan's economy has been sick for more than a decade in large part because the culture of "saving face" makes it hard for the government to force banks and other companies to publicly own up to their bad investments.

While the banks have already taken the hit on hundreds of billions of dollars of bad debts in the past several years, analysts project that there are at least $500 billion more in bad debts to be written off. In fact, one analyst estimates that the net worth of Japan's entire banking industry as a *negative* $1 trillion!

The government is slowly (too slowly in my opinion) trying to wring some of this rot out of the economy. As of April 1 this year, the Japanese government is reducing their unlimited insurance coverage on bank accounts (similar to FDIC in the U.S) to only 10 million yen (currently about $75,000).

This reduced coverage has led many Japanese savers to withdraw funds from their banks to get under the forthcoming limit. Most of these funds are going into new accounts at other banks (where savings accounts are currently paying an infinitesimal 0.02% interest). However, a small but significant amount has also been converted into gold.

A change in financial reporting taking effect soon will require even more valuation of investments at market value than before. In the past, losses have been hidden because investments were carried on the books at original cost. Apparently, it is culturally more acceptable to report trading losses than to have to book year-end market adjustments, so many companies are unloading their duds before year-end.

This fall in demand for the yen and for Japanese stocks has contributed to the decline in the value of the yen and of Japanese stocks.

While a weaker yen will not cure all of Japan's economic woes, it will make Japanese exports more competitive with the rest of the world. That will stall the U.S. recovery from the recession. A weaker yen will also have the same effect on the competitiveness of other nations, likely leading to competing devaluations. This would put further pressure on the U.S. economy.

2. The U.S. Economy. Despite the

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One Month Change In Value

February 5-March 5, 2002

Precious Metals	
Gold	-1.4%
Silver	+4.4%
Platinum	+11.4%
Palladium	-2.2%
Foreign Currencies vs US Dollar	
Japan Yen	+1.3%
British Pound	+0.7%
Euro	+0.6%
Canada Dollar	+0.6%
US And World Stock Indices	
Nikkei 225	+19.8%
Dow Jones Industrial Average	+7.7%
DJ World (excluding U.S.)	+7.3%
Frankfurt Xetra DAX	+5.9%
S&P 500	+5.1%
London FT 100	+2.4%
NASDAQ	+1.5%

Inside this issue:

mostly upbeat news about the U.S. economy over the past month, new shocks are almost certain to be forthcoming. The worries over how IBM and General Electric have accelerated booking profits have not disappeared despite company denials.

The U.S. automotive companies accelerated their sales after September 11 last year by lowering prices through offering 0% financing. Since those promotions ended at the beginning of this year, their sales have plummeted. They have recently been forced to drop prices again by offering a combination of huge rebates and cheap financing. Despite working on lower profit margins, I doubt their 2002 results will come close to matching 2001 levels.

JP Morgan Chase did not go bankrupt by the end of February. But it is still struggling to cope with the hundreds of millions (and perhaps more than $1 billion) of their unbooked losses from the Enron and Global Crossing bankruptcies and the Argentina currency devaluation.

This bank is the dominant trader in financial derivatives. Their derivative position (that company officials claim to have safely hedged) currently amounts to $29 trillion (no, that is not a misprint)! If this bank goes belly up, all of these derivative trades would have to be closed out.

I strongly suspect that the U.S. government would not let this bank go bankrupt—because it would begin a domino effect of bankruptcies comparable to what the Long-Term Capital Management debacle in 1998 came close to doing.

3. U.S. government gold trading. Despite constant assertions by U.S. Treasury and Federal Reserve officials that they have not been trading gold at all, much less trying to hold down the price of gold, evidence continues to pint otherwise. The officials say that the more comprehensive financial reporting standards that might have headed off the Enron debacle, and that will probably now be imposed on publicly traded companies, should not be expanded to include themselves.

That may be about to change. On February 14, Congressman Ron Paul (R-TX) introduced H.R 3732, the Monetary Freedom and Accountability Act. This bill would require the president or Treasury Secretary to get approval from Congress before buying or selling any gold.

When Treasury Secretary Paul O'Neill appeared before the House Financial Services committee on February 28, Rep. Paul asked him what he thought about H. R. 3732. O'Neill replied that he would oppose anything that reduces the administration's "flexibility."

Since the Federal Reserve's general counsel, Virgil Mattingly, claimed in a June 8, 2001 memo to Fed Chairman Alan Greenspan that the Treasury's "Exchange Stabilization Fund has not held any gold since 1978," one wonders what the administration is trying to hide in opposing this Bill.

Greenspan testified before this House committee on February 27. Rep. Paul asked him a long question about fiat money manipulation that ended, "So I would ask you, can you see any corollary whatsoever on what you're asked to do in running our monetary system to that which Enron was involved in?"

Greenspan's long answer included, "I've always had some considerable skepticism about whether that [a fiat or "paper" money system] in the long run can succeed, but I must say to you , the evidence of recent decades is that it has been succeeding. Whether that continues is a forecast I can't really project on."

During continuing testimony, Greenspan also objected to the administration having to get Congressional approval before trading gold.

In the next few months, the Gold Anti-Trust Action Committee (GATA) lawsuit will either be tossed out of court or will proceed to the discovery stage. If it continues to discovery, the defendants, including Greenspan, will be compelled to answer questions under oath that they are so far carefully avoiding answering.

The lawsuit contends that Greenspan, the Federal Reserve Bank, Bank for International Settlements, and other central banks and private banks have conspired to manipulate the price of gold downward. As the case has progressed, additional supporting evidence has surfaced to reinforce the plaintiff while nothing but indirect denials from the defendants has surfaced to support the other side. In fact, GATA claims they will provide testimony from one former government official who signed the paperwork for some of the gold trading that the defense is claiming never happened!

The point of the GATA lawsuit is that a lot more central bank gold reserves have been leased onto the market in attempts to hold down the price than has been publicly reported. To the extent this turns out to be true, the perception of gold market fundamentals will undergo a huge shift (when people realize that demand has been 15-20% higher than reported for the past several years), causing sharply higher prices. GATA thinks gold could easily reach $600 and I don't think that is a stretch.

In sum, the GATA lawsuit may yield significant information that boosts the price of gold. If it doesn't, Rep. Paul's Bill could bring some light to U.S. government gold trading operations. If neither of them succeed (which is quite possible considering who they are up against) they still might lead to

Royal Canadian Mint Selling Harry Potter "Coins"

The Royal Canadian Mint (RCM) is literally cashing in on the Harry Potter phenomenon by issuing a series of medals under the ReelCoinz brand name. The series includes a total of 22 different copper-nickel medals.

The 27-millimeter medals are the same size as the Canadian Half Dollar. The reverse side is described as being in proof condition; no information is available about the obverse finish.

They are being marketed in limited venues. There are two different five-piece sets. The other 12 medals are only available in 3-piece Mystery Packs containing random pieces that cannot be identified until the package is opened.

The sets and the packs can be purchased in Canada at Canadian post offices, and at Toys R Us, Jumbo Video, and Zellers stores. All products may also be purchased direct from the Royal Canadian Mint.

These Harry Potter medals remind me of the Rarities Mint series of Disney medals issued in the mid– to late-1980s. The Disney themes made these gold and silver medals popular for a couple of years, with scarce issues rising in the aftermarket. Then the fad passed. The Disney medals now almost always trade on the wholesale market on the basis of precious metal value only.

It may be possible to acquire the entire 22-piece collection plus a Collector Board for as little as $71. That price is not unreasonable and I hope the RCM enjoys good sales of these fun collectibles. However, these should not be purchased as "investments." And, despite being manufactured and sold by the Royal Canadian Mint, they are not coins.

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a stronger gold market simply by drawing attention to gold.

Summary. Undoubtedly, the increased investigations of questionable accounting practices will lead to further disclosures in the coming months, such as the $750 million loss by the Allied Irish Banks that came to light a few weeks ago. How bad will the results be for paper assets? Maybe the market has already discounted future surprises. But, in my mind, the world's stock markets could easily lose another trillion dollars in valuation. To protect yourself, you need to beef up your holdings of tangible assets such as gold, silver, and rare coins.

Don't just take my word for it. In today's press, Fidelity's North American fund manager John Muresianu said, "The market still believes in technology and expects a comeback yet I think that future earnings and modulars will contract. Although stock prices are down, they are not down as much as the fundamentals. Finance stocks are highly overvalued and derivatives exposure will show themselves as a big problem going forward, alongside a negative bid against blue chip growth companies. . . . there has never been a better opportunity for gold in 20 years, so my position reflects the concern about financial reports."

Gold and Gold Coins

Gold closed today at $293.50, down $4.00 (1.49%) from a month ago.

On February 8, gold reached its highest U.S. close in two years when it settled at $303.50.

Two years ago, when the price of gold topped $300, we saw a surge of liquidation. This time around, there was no increase in gold being sold back to us. Instead, we enjoyed a small uptick in the amount of gold purchased from us.

The strongest demand for physical investment gold right now comes from Japan and elsewhere in the Far East. There has also been a modest increase in jewelry demand worldwide.

The World Gold Council reported that the 4th quarter 2001 worldwide demand was among the highest for any quarter. I wouldn't be surprised if the 1st quarter 2002 not only tops that but maybe even sets the all-time record.

There has been little change in premiums among bullion issues. The U.S. **American Arts Medallion** (2.2%), and Austria **100 Corona** (2.5%) are still the low cost leaders with the South Africa **Krugerrand** (2.9%) also worth consideration.

Among smaller-size gold coins, the British **Sovereign** (6.0%) is a great choice. It has a history of trading at much higher premiums, 20-35%, and is perhaps the most widely traded gold coin around the world. Other lower premium small gold coins include the French **20 Franc Rooster** (7.7%) and Swiss **20 Franc** (7.7%). I have a preference for the Sovereign, though, because they are coins actually struck in the year they are dated, whereas the French and Swiss coins were restruck in later years.

On February 6, the U.S. Mint released mintage figures for the 2001 Eagles series. The 1 Ounce size set a record for lowest mintage in the series—just 143,605 coins. A total of 48,047 1/2 Ounce coins were struck, the lowest mintage of the past five years, but almost double the 24,100 pieces dated 1991.

Likewise, the 1/4 Ounce had a mintage of 71,280, lowest in five years, but much higher than the 36,100 coins dated 1991. The production of 269,147 1/10 Ounce coins was the lowest since 1995 and well above the 159,500 minted in 1988.

(Incidentally, the 9,001,711 2001-dated Silver Eagles sold is the 3rd highest mintage year. The 14,070 1 Ounce Platinum Eagles is the 2nd lowest mintage year. The 12,815 1/2 Ounce Platinum Eagles are the lowest mintage of all five years of the series. The 21,815 1/4 Ounce Platinum Eagle is barely more than the lowest mintage in 2000. The 52,017 1/10 Ounce Platinum Eagle mintage places that 3rd out of the five years of production.)

Common-Date U.S. Gold Coins largely held onto their price jumps of a month ago. Even at these somewhat higher levels, they are still attractive in terms of absolute prices and in the premium to gold content.

Better-Date U.S. Gold Coins continue to be difficult to locate. Collectors buy them up instantly when found. We were fortunate to uncover a small group of Mint State-62 1902 $10.00 Liberties. See our flyer for details.

Silver and Silver Coins

Silver settled today at $4.52, up 16 cents (3.7%) from four weeks ago.

As prices have come up, premiums on U.S. **90% Silver Coin** (8.8%) and U.S. **40% Silver Coin** (8.7%) have dropped slightly. They continue to sell for a lower price per ounce of silver content than **100, 10, and 1 Ounce Ingots** (11.1-13.3%). Because of the price advantage, I still recommend 90% Coin over ingots for most purposes. I also prefer 90% Coin to 40% Coin in most situations because it requires less storage space and lower transportation costs for the same quantity of silver.

There is a rumor that a Middle East government may be looking to try to corner the silver market, given its fundamental shortage of new supplies against demand and the dwindling above ground inventories.

It doesn't matter to me whether this particular rumor is true. The silver market is poised for someone to try such a move. For a mere $500-750 million (chump change in investment circles), a strong-hands speculator could force up the silver market significantly in a short time, as Warren Buffett accomplished four years ago for about $650 million.

Affordable **Better-Date Morgan Dollars** continue to be in solid demand. Market supplies are diminishing, but prices have not yet really started to move. Our offering of **1888, 1889 and 1921-S Morgans in high grade** are good examples.

Many other popular silver collector coins are up in price. **Mint State Franklin rolls** are up over 50% from their lows a few years ago. They do not represent good value in my judgment. **Proof Walking Liberty Half Dollars** are up about 10% so far this year, and may have more room to climb. If you missed out on our offer of Proof Walkers, two months ago, the **Proof Mercury Dimes** from the same era offer an attractive alternative—if you can find them!

When we were recently offered a sizeable group of Common-Date **Choice Mint State-63 Peace Dollars**, we learned that wholesale bid prices have jumped about 10% since the start of the year. Our offer of these coins at last year's prices may be a real sleeper of an opportunity.

A Plague Of "Boutique" Coins

I object to what I call "boutique" coins. I dislike them for all the same reasons I warned readers away from "Instant Rarities" back in the 1980s.

These boutique coins are being created

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to satisfy public demand for so-called rarities. Gold and silver and other coins are especially prone to abuse by promoters as they have the image of representing permanent value.

In the past I have railed against a program by the Independent Coin Grading Company (ICG) where they are taking common specimens of U.S. Statehood Quarters, certifying them in high-grade, then encapsulating them in the holders with autograph of someone who had some connection with the design process for that particular quarter.

A month ago, we became aware of another "boutique" gimmick. In 2000, the Royal Canadian Mint "accidentally" struck an issue that had the dies of a new millennium medal on one side and the 2000 Quarter on the other. A customer brought one to our store for possible sale. He had paid a well-known Canadian dealer $800 (US funds) for this error, but the dealer was unwilling to offer to repurchase the piece. When we checked our sources, we found we could acquire more pieces for about $100, but were unable to obtain a reliable buy price. We could not help this customer.

At the Long Beach Exposition two weeks ago, I saw two more travesties.

First, The Professional Coin Grading Service (PCGS) had encapsulated several recent so-called coins of Liberia. These coins are actually near replicas of classic U.S. coins of the past. Every specimen was certified as a top-grade Proof. I suspect that every single coin struck by a private company in the U.S. (paying a small royalty to the Liberian government for their name) and was immediately given to PCGS for certification. The quality of the craftsmanship looked to be on the level of companies that strike round silver ingots. I imagine that these will be promoted as "inexpensive" ways to own examples of great American rarities. Packaging them in this manner makes it possible to charge a higher price than to simply issue ounce silver rounds as replicas of classic U.S. coins—as has been done.

Second, in 1999 the U.S. Mint accidentally used one of its dies intended to strike Proof 1/4 Oz Gold Eagles at the West Point to produce regular 1/4 Oz Gold Eagles. These coins all bear the "W" mintmark that is only supposed to appear on Proofs. Obviously, someone corralled a large quantity of these coins before they could get shuffled around, because at least three wholesalers were trying to get us to purchase quantities of these coins, certified by ICG as MS-69, at prices ranging from $375-425. These may be legitimate errors, but the large quantities available in high grade mean they are worth nowhere near these price levels.

Like the "Instant Rarities" of the 1980s and the Harry Potter "Coins" discussed on page 2, these issues are all likely to have values decline in the aftermarket. If you really like them, I recommend waiting until you can purchase them at lower prices.

The Month

Gold Range	$11.25	3.8%
Net Change	-4.00	
Silver Range	.25	5.7%
Net Change	+.16	
Gold/Silver Ratio		64.9
Net change		-3.3
Platinum Range	55.00	12.0%
Net Change	+53.00	
Platinum/Gold Ratio		1.74

Date	Gold	Silver	Platinum
Feb 06	297.50	4.36	457.00
Feb 07	299.75	4.34	468.00
Feb 08	303.50	4.45	476.00
Feb 11	300.00	4.42	472.00
Feb 12	300.50	4.48	465.00
Feb 13	299.50	4.50	471.00
Feb 14	299.75	4.53	481.00
Feb 15	298.50	4.53	475.00
Feb 18	closed		
Feb 19	293.25	4.47	471.00
Feb 20	292.25	4.40	468.00
Feb 21	293.25	4.41	473.00
Feb 22	293.25	4.40	474.00
Feb 25	292.75	4.37	478.00
Feb 26	298.00	4.42	482.00
Feb 27	296.50	4.42	496.00
Feb 28	296.50	4.50	488.00
Mar 01	298.00	4.55	498.00
Mar 04	296.75	4.59	512.00
Mar 05	294.00	4.55	508.00
Mar 06	293.50	4.52	510.00

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

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

OSHA Shuts Down Philadelphia Mint

Last year, the Occupational Safety and Health Administration (OSHA) conducted a major inspection of the U.S. Mint's Philadelphia coin production facility. On February 27, OSHA notified the Mint of 139 OSHA violations, 47 of them considered serious.

In the report, OSHA labeled the U.S. Mints at Denver and Philadelphia as the two most dangerous places in the federal government to work.

The Mint had already made permanent or temporary remedies for 136 of these violations. However, to address the last three, the Philadelphia Mint ceased coin production on March 4. Employees are still working there to enhance safety, undergo training, and to improve housekeeping and cleanliness. Production will not resume until OSHA approves the Mint's steps taken for the last three violations. This may take as long as six weeks.

Overall Mint production should not suffer as demand for new coinage has been falling. The Mint had laid off hundreds of employees in 2001 because of lack of demand. About the only low mintage coins that might result from this break in production are the statehood quarters for Ohio and Louisiana. If you can get some rolls of the Philadelphia Mint issues of these quarters at or close to face value, it may be worth it.

Mail Irradiation Damages Coins

Last month, I described how the U.S. Postal Service's use of electron beam irradiation to kill possible anthrax spores is damaging paper money and other paper products contained in packages.

Now, three coins in a package have been damaged by the process. The coins, all encapsulated by grading services, turned from bright white to unattractive very dark pieces. One of the coins was also damaged when the NGC plastic holder melted onto the surface of the coin.

The post office claims that the only mail subject to this irradiation is that going to zip codes beginning with 202, 203, 204, and 205. If your mailing address begins with these numbers, we can arrange for delivery by alternate means to protect the merchandise.

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