

Liberty's Outlook

Volume 9 Issue 3 Liberty Coin Service's Monthly Review of Precious Metals and Numismatics March 5, 2003

The Coming U.S. Coinage Change—A Once-In-A-Generation Profit Opportunity!

**Rare Coin Demand Up Sharply! Prices Strong!
Gold And Silver Consolidate Recent Gains, Physical Demand Strong!**

Gold and silver prices are taking a breather, consolidating recent gains. Before they resume climbing (my expectation) I am going to take time this month to discuss the surging rare coin market in more detail. Plus, I'll tell you why I think rare coins are going to get much stronger over the next few years than almost anyone today realizes.

Last month I reported that the rising gold price seems to have sparked more aggressive buying activity and widespread price increases in the rare coin market. Here are some examples that might give you some idea of the depth of the move.

⇒At the recent New York International Coin Show, a Midwest dealer who specializes in world gold coins sold his entire inventory of Scandinavian gold coins at surprisingly high prices. All of these coins were being sent back to Scandinavia.

⇒A long-time New York dealer who specializes in everyday collector coins, is selling coins as fast as he can acquire them. He bought a group of 17 1795-1803 Bust Silver Dollars to put on upcoming his price list, but sold half of them in the few days before he could write the list.

⇒In Michigan, dealers who once sold us key-date collector coins are now calling us on almost a daily basis to see if we have uncovered any new supplies. Other dealers are driving 50-100 miles to visit us every couple of days to look at our new pur-

chases.

⇒A customer in our store last week summed up a typical attitude we hear frequently now. "I'm fairly new to collecting coins. I started with the State Quarters, have expanded to buying the annual Silver Eagle Dollars and Proof Sets, and want suggestions on what to collect next." This particular customer decided to begin a collection of the different dates and mintmarks of Morgan and Peace Silver Dollars that are priced up to \$100 per coin.

⇒In last month's newsletter, we offered a single specimen of the 1946 Iowa Commemorative Half Dollar in Superb Gem Mint State-66 quality, one of the more common silver commemoratives in high grade. It sold almost instantly. Several other customers asked us if we could locate additional specimens. Normally it would be easy to find ten nice specimens at a major coin show. However, when I attended the Long Beach Exposition in California last week, I saw just four attractive specimens—despite a concerted search. Only two of these were offered to me at what I judged reasonable prices.

⇒In the past, coin dealers tried to quietly acquire coins for promotional offerings, to avoid running up the prices they were paying. Today, this activity is much more overt because so many more dealers are trying to purchase the same material. A few examples of items being accumulated now for upcoming promotions are Carson City Mint coinage, 1921 Peace Dollars, early U.S. Small-Size Federal Reserve Notes, circulated common date Morgan and Peace Dollars, Lewis and Clark and Louisiana Purchase Gold Commemorative Dollars issued from 1903-1905, 1904-dated Morgan Dollars, Mint State pre-1965 U.S. coinage, and Colonial coinage and currency.

⇒Our featured rare coin offerings in this newsletter and elsewhere this year have virtually all sold out—quickly. In January, for the only time in the past 20 years, we sold out absolutely everything. Equally as surprising is the rising demand from other coin dealers who are buying our offerings at our "retail" prices.

⇒A Michigan dealership that specializes in ancient and medieval coinage publishes a periodic "buy or bid" list, where customers are encouraged to make offers on coins where they do not want to pay the posted price. Re-

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cently, a member of their staff told me that a much higher percentage of the coins on their lists are selling at the “buy” price rather than for a lower bid amount.

The key elements leading to the current surge in the rare coin market prices are fundamental.

Supplies are tight on desirable coins because prices are so low that most knowledgeable collectors will not sell their holdings.

Prices are attractive for buyers both from the standpoint of absolute affordability and because many coins are selling today at a tiny fraction of their price at the last major market peak.

The growing number of collectors is increasing demand. The U.S. Mint now says that there are 140 million people collecting the State Quarter series, making it the most popular collectible in the U.S!

While a sizeable percentage of these collectors will just stick to the State Quarters, a significant percentage will go on to other coin series. Since 1999, we have seen sizeable increases in the prices of Proof Silver Eagle Dollars and U.S. Proof Sets, some of the obvious “next steps” for novice State Quarter collectors.

Key-date collector coins are hot, hot, hot right now. We get calls all day long from collectors looking for 1877 Indian Cents, 1909-S VDB, 1914-D, and 1931-S Lincoln Cents, 1937-D 3-legged Buffalo Nickels, 1916-D Mercury Dimes, 1932-D and 1932-S Washington Quarters, Carson City Silver Dollars, and the like. It is almost impossible to keep any in stock.

If the rare coin market had no more boost from new products than the State Quarter series, we could look forward to a boom time over the next few years. However, an even more significant development is likely to happen soon.

The Coming U.S. Coinage Change!

For years, there has been a growing clamor for changes in U.S. coin designs. All five of the denominations from cent through half dollar have been around well beyond the U.S. government restriction against changing designs sooner than every 25

years.

The Lincoln Cent series started in 1909, the Jefferson Nickels in 1938, the Roosevelt Dimes in 1946, the Washington Quarters in 1932, and the Kennedy Halves in 1964. While no one is particularly knocking the worthiness of these designs, the consensus is that the coins are mundane and uninteresting.

Last year, a coinage redesign bill was introduced in Congress. It would have started with the Jefferson Nickel by changing the reverse in 2003 with a commemorative design for the bicentennial of the Lewis & Clark Expedition. The Virginia delegation in Congress successfully opposed this bill because they objected to the removal of Jefferson’s home Monticello. It died in committee without action.

Had that bill been enacted, it would have also required new designs for the other four denominations within the next five years.

This year, a different bill has been introduced (H.R. 258) which has the support of the Virginia delegation. Not only has it been introduced, but it also has been given “fast track” status. It was approved by the House Committee on Financial Services on February 13.

The bill has three compromises that overcame objections to the prior bill. If this bill becomes law, the Jefferson Nickel will be redesigned for 2003. A new Jefferson portrait will appear on the front. The reverse side of the 2003, 2004, and 2005 nickels will each have a unique commemorative of the Lewis & Clark Expedition. Then, in 2006, Monticello will return, which satisfied concerns of the Virginia legislators.

In addition, this bill would also abolish the Citizens Commemorative Coin Advisory Committee (CCCAC) and replace it with a Citizens Coinage Advisory Committee. Existing CCCAC members would form the nucleus of the new Committee, satisfying their complaint that last year’s bill would have cast them out.

Finally, the bill does not mandate new coin designs, overcoming objections from various sectors. However, the basic intent of the current bill is that the new Committee will take up work on new designs for all circulating

denominations less than a dollar.

When a bill is designated for “fast track” attention, it is virtually guaranteed to become law quickly. I expect that to happen.

What is less sure is that enactment of this bill will necessarily lead to new coin designs. I am confident that we will have new coin designs for the cent through half dollar by the end of this decade. Here are just a few of the reasons:

1. There is a specific push to at least change the reverse design of the Lincoln Cent in 2009, the hundredth anniversary of this series.

2. As has been shown with the State Quarter series, the public will save/collect massive quantities of new coins, with the result that the U.S. Mint will make greater profits.

3. Many people would like the opportunity to honor other people or ideas on coins.

4. Changing the look of U.S. coins could make it easier for the Treasury to eventually discontinue the one-cent denomination.

5. The U.S. has a history of more frequent changes in coin designs. The Lincoln cent is the longest lasting series by far in American history, with the Washington Quarter and Jefferson Nickel also near the top of the list in seniority.

The prospect of making additional profits should overcome the Mint’s concern over the costs of redesigning coins. With Americans accustomed to the major changes in paper money last decade, I just don’t see any obstacles to changing the coin designs other than bureaucratic inertia.

What does a major coinage redesign mean for the rare coin market?

A Once-In-A-Generation Profit Opportunity!

Over the past 150 years, whenever there has been a change in U.S. coinage, the number of collectors has increased. Virtually every time, almost no exceptions!

When the last half cents and large size one cents were struck in 1857, America enjoyed its first surge in coin collecting. When late President Kennedy’s portrait was placed on the half dollar in 1964, there was a massive in-

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crease in coin collectors—including me and much of my extended family. Even the appearance of the Bicentennial reverses on the quarter, half, and dollar coins sparked interest.

The duds have been few and far between, such as the 20 Cent denomination that was introduced in 1875 and only struck for circulation for two years and the Susan B. Anthony Dollar that debuted in 1979.

Any coin redesign program that includes several denominations and also incorporates commemorative issues for one or more years will simply add to the influx of new collectors above and beyond those who were inspired the State Quarters.

What has happened before, and would doubtless happen again is that the first year issues of the new coins would be massively hoarded by the general public. Then, as coins with the former designs start disappearing from circulation, the public will more aggressively pull them aside to save.

Existing coin collectors, in anticipation of this increase in the number of collectors, will accelerate their purchases, as we see happening now.

With the growing demand for the fixed and limited quantity of older coins, prices should take off. The Twentieth Century coin series will likely benefit more than those from prior centuries as people stop thinking of these coins as mere pocket change and start valuing them as collectibles.

Among the coin series that I expect to enjoy significant boosts in demand are the Lincoln Cents, Buffalo and Jefferson Nickels, Mercury and Roosevelt Dimes, Standing Liberty and Washington Quarters, Walking Liberty, Franklin, and Kennedy Half Dollars, and the Morgan, Peace, and Eisenhower Dollars.

Proof Sets, Silver Eagle Dollars, and Modern Commemorative issues will also become more popular. There will even be an increase in the number of collectors of the Gold and Platinum Eagles by date!

How high could rare coin prices go with the combined impact of the State Quarter series, new coin designs, and the surging demand for gold and silver physical bullion?

That is difficult to forecast exactly,

but past track records give some indications. **A huge number of rare coin prices could double or triple by the end of this decade. Many might jump 500% to 1,000% or even more!** That is not pie-in-the-sky wishful thinking. Rather, it is just what we have seen happen in the past.

Now, not all coins will rise in price, although I expect virtually all U.S. coins will do so. They also will not rise by the same percentage or at the same time. To increase the chances that your rare coins that will outperform the average appreciation, we recommend 1) acquiring a diverse selection of coins, and 2) using past price histories along with information on supply and demand to identify undervalued bargains in the current market.

I understand the excitement of new collectors in wanting to acquire coins first, before studying the reference books in depth. To help novice rare coin collectors make more profitable choices, we recommend the following allocation:

1. Common Date U.S. Gold Coins, \$1.00 through \$10.00 (15-25%).

2. Better-Date U.S. Gold Coins \$1.00 through \$20.00 (10-20%).

3. Gold Commemoratives, 1903-1926 (10-15%).

4. Better-Date and Better-Grade Morgan and Peace Dollars (15-25%).

5. Better-Date and Better-Grade Minor Silver Coins (10-20%).

6. Silver Commemoratives, 1892-1954 (10-15%)

7. Copper and Nickel Coins and Special Opportunities (5-10%).

Budgets that are limited can eliminate one or more of the categories.

Last issue, I gave you a number of examples of coins in these categories that I think are great bargains today. Next issue, I will discuss the concepts of these categories in more depth.

The greatest profits will be realized by those who accumulate their rare coins sooner rather than later. I think that it is more likely than not that, while handsome returns on gold and silver bullion may materialize over the next few years, rare coins will outperform precious metals by the end of this decade.

Since U.S. law prohibits a change in coin designs more often than every 25

years, unless Congress passes a law to permit an exception (as was done in 1964 for the half dollars and in 1979 and 2000 for the dollar), the prospect of the coming change in U.S. coinage represents an enormous once-in-a-generation profit opportunity to those willing to take the risk.

Gold and Gold Coins

Gold closed today at \$353.00, down \$23.25 (6.2%) from last month.

After reaching its highest price in more than six years in early February, gold experienced a long overdue interim correction and consolidation. Even at today's lower levels, gold is still higher than at anytime from early 1997 through the end of 2002!

There is a small chance that the price of gold may fall from current levels, although huge physical demand appeared when gold reached the mid-\$340s last month. If gold falls below \$345, I doubt it would go much below \$330.

After this long overdue correction, I expect the price of gold to resume its upward climb once whatever will or will not happen in Iraq comes to pass. The fundamental reductions of supply from the mines and central banks over the past year are continuing and demand for physical gold is even stronger than the higher gold prices indicate.

European bullion gold coins such as the British **Sovereign** (7.7%), French **20 Franc Rooster** (8.9%), and the Swiss **20 Franc** (8.9%) have maintained recent higher premium levels as have a number of other European coins.

Over the past month, we have seen significant premium increases among the lowest premium issues such as the U.S. **American Arts Medallion** (3.1%), Austria **100 Corona** (3.2%), and South Africa **Krugerrand** (4.2%).

The Krugerrand has jumped more than the others because we have seen almost no liquidation this year. Since the mid-1980s, any kind of rise in gold spot would bring out large quantities of Krugerrands. But not now. To me, that says that the "weak hands" physical gold investors have mostly already left the market. If that reflects the general gold market, higher prices are almost a certainty.

There are already reports that fabrication demand for gold in 2003, primarily

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for jewelry, is almost certain to be up over 2002 levels. Credit is mostly given to soaring demand in China, as I have discussed in recent months. As fabrication demand accounts for over 80% of total gold demand, we could see higher prices for this reason alone! Whether or not there is a war with Iraq, I anticipate that gold will top \$400 this year.

Much is being made of mega-billionaire Warren Buffett's recent letter to the shareholders of Berkshire Hathaway. In the letter, he savages the current stock market and its future prospects. Several analysts are predicting that Berkshire Hathaway may soon make a major investment in gold, if it has not already done so. Buffett's \$600 million plunge into silver in 1997 pushed up prices 73% from July 16, 1997 to February 5, 1998. A similar foray into gold would have a significant, though smaller, impact.

The retrenchment in gold prices reversed some of January's sharp rise in numismatic gold coins. Demand softened as buyers perceived that they have some time before the next big run up in gold spot prices. But, when the price of gold dipped below \$350 while I was attending the Long Beach Exposition late last week, I saw wholesalers scrambling to find coins to fill a fresh wave of orders. I doubt that prices will remain this low for long.

We have taken advantage of the recent drop to snap up some bargains. While trying to locate more of the 1984 Helen Hayes 1 Oz Gold American Arts Medallions for customers on the waiting list from our January sell-out, we came across a number of the **1984 John Steinbeck 1/2 Oz Gold American Arts Medallions**, which have an equally attractive low mintage. Steinbecks sold for as much as \$625 in the past. They are over 60% lower today plus they are now being certified by the Professional Coin Grading Service (PCGS). I would not be surprised for Steinbecks to be at much higher levels by year-end. See our flyer.

We also can offer **Choice Mint State-63+ Netherlands 10 Gulden** is-

The Month

Gold Range	\$32.25	8.6%
Net Change	-23.25	
Silver Range	.25	5.3%
Net Change	-.13	
Gold/Silver Ratio	76.2	
Net change	-2.8	
Platinum Range	40.00	5.9%
Net Change	+15.00	
Platinum/Gold Ratio	1.96	

Date	Gold	Silver	Platinum
Feb 05	376.25	4.76	678.00
Feb 06	370.00	4.67	670.00
Feb 07	369.75	4.65	677.00
Feb 10	363.75	4.60	675.00
Feb 11	362.50	4.57	677.00
Feb 12	353.00	4.51	680.00
Feb 13	357.50	4.53	679.00
Feb 14	351.75	4.53	679.00
Feb 17	347.25	4.51	679.00
Feb 18	344.00	4.55	653.00
Feb 19	350.00	4.62	660.00
Feb 20	353.00	4.66	662.00
Feb 21	351.75	4.66	665.00
Feb 24	356.25	4.71	668.00
Feb 25	353.00	4.64	672.00
Feb 26	354.00	4.65	672.00
Feb 27	346.00	4.57	670.00
Feb 28	350.00	4.59	675.00
Mar 03	349.25	4.66	677.00
Mar 04	353.00	4.66	684.00
Mar 05	353.00	4.63	693.00

London Silver Market Premium To New York Silver Market = 2¢

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

sued by King Willem III from 1875-1889. With the increased demand for European coins by European buyers, now is the time to buy. See our offer for details.

Silver and Silver Coins

Silver settled today at \$4.63, down 13 cents (2.7%) from four weeks ago.

Even though the price of silver dropped, demand for physical silver has been so strong that premiums rose again—as I told you last month to expect. In fact, the price of U.S. **90% Silver Coin** (12.1%) is significantly higher than it was earlier this year when the silver spot price was in the \$4.80s!

U.S. **40% Silver Coin** (11.7%) and **100**

Ounce Ingots (12.1%) are also at higher premiums over the past month.

Investor demand for physical silver this past month has been the strongest we have seen since the super boom of 1979-1980. For the first time in LCS history, we even purchased the entire contents of an armored car full of 90% Coin just to fill orders!

I think the major obstacle toward sharply higher silver prices is an indication that the economy is improving. At its current low price, silver is primarily an industrial metal. Fabricators have depleted their silver inventories to improve cash flow. If it looks like the economy will be recovering, fabricators, distributors, and retailers will beef up their inventories, adding pressure for silver prices to rise.

Unless the price of silver jumps soon, I expect that premiums will continue to rise. So, even though I am not in love with current premium levels, I think it is better to add to your silver holdings today rather than risking higher spot prices.

Numismatic silver coin demand is getting stronger every week. Although the prices of common-date high-grade Morgan and Peace Dollars are up only slightly, many Better-Date Morgan and Peace Dollars and U.S. Silver Commemoratives have jumped 5-15% already this year!

Demand for Mint State Rolls is also solid. We acquired our largest lot of **Mint State Mercury Dime Rolls** in the past 20 years and have dealers buzzing around to snap up whatever our retail customers don't take first. We have also acquired enough **Mint State Franklin Half Dollar Rolls** at their temporary bargain price to make a general offering this month. But they won't last long.

As I have discussed recently, the numismatic market in China has soared over the past couple of years. Demand is so strong that many current issues that were exported to the U.S. were later sent back to China to take advantage of higher prices there! We are able to offer the **2003 China 1 Oz Silver Panda** at an attractive price, but don't know for how long they may be available.