Liberty's Outlook

Bonus Special Edition!

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War Or No War—Your Wealth Is Under Attack!

How To Protect Yourself In Turbulent Times!

P.2. Rare Coin Frenzy Continues To Develop!

By the time you read this newsletter, the bombs and bullets may already be flying in Iraq. Last night, U.S. President George W. Bush gave Iraqi leader Saddam Hussein and his sons 48 hours to relinquish control of that nation or face an invasion by American, British, Australian, and Polish armed forces.

As I write this, the immediate future of Iraq is uncertain. From the perspective of the American government, the best near term results would be 1) for Hussein to abdicate before the deadline, or 2) for the Iraqi military to cast out Hussein and invite into Iraq the troops massed at its borders.

I hold out little hope that either of these scenarios will occur.

At the worst, we may see hostilities drag on for several weeks or months with 1) large numbers of Iraqi civilians killed and injured by military forces on both sides, 2) painfully large military casualties, 3) significant damage to the Iraqi infrastructure, and 4) the possible release of chemical, biological, or nuclear weapons. There may even be terrorist attacks in the U.S. and other parts of the globe.

I am hopeful that this worst-case scenario will not come to pass.

Already, the massing of military personnel and equipment in the Middle East has cost billions of dollars. The White House is expected to soon ask Congress to spend another $90 billion just to cover existing costs.

This price tag doesn't even cover the financial burdens borne directly by America's citizenry—the loss of income to families of reservists called to active duty, the disruption to businesses that have suddenly lost employees and are required to keep their jobs available when they return at some unknown future date, and the higher costs for many goods and services (approximately 40% of the cost of an airline ticket goes for taxes to pay for such things as heightened security measures).

Another cost imposed on the citizens is the loss of civil rights that inevitably occurs when politicians wage war, though that subject is beyond the scope of this discussion.

I contend that no matter how the immediate military hostilities and change of regime in Iraq turn out, it will represent only the beginning—not the end—of a massive increase in the size of the U.S. government over the next several years.

I further believe that this massive increase in government spending will inflict enormous damage on the U.S. economy. Business profits will be down, jobs will be lost, stock market values will be crippled, the value of the U.S. dollar will decline.

There is only a slim chance that this economic suffering can be avoided. But there is much that private citizens can do to protect themselves from the coming economic calamity.

Before discussing ways to protect your wealth, let me outline the ways that I expect to see the U.S. government expand.

Entering The Mire!

What we are now facing in Iraq is only the next step of the U.S. government serving as the world's policeman.

Ousting Saddam Hussein from power will not solve other threats facing the U.S. government and its people. Hussein may again try to dispatch dozens of terrorist teams as he did in 1991 to try to wreak havoc around the globe. Al Qaeda and other organizations have terrorist plans of their own against the U.S. and other nations. You can be sure that whatever the U.S. and its allies do in Iraq will be used by terrorists as a recruiting tool to increase their ranks.

So, the U.S. government will be spending greater amounts in the future both to track down and combat these terrorists and to increase security in the U.S.

Next, to help sell the "get tough with Iraq" posture, President Bush has added some carrots. He has made a commitment for the U.S. taxpayers to pay for a continuing U.S. military and/or civilian presence in Iraq after hostilities are over, ostensibly to support development of a democratic form of government that respects civil rights (as the U.S. has become mired long-term in Afghanistan, Colombia, and Haiti, for example).

Beyond that, President Bush has indicated that the U.S. will then meddle in the internal affairs of Iran and North Korea.

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Even as I write, the U.S. is getting more deeply involved in anti-terrorism efforts in the Philippines and many nations in South and Central America.

Once the U.S. government functions as the world's policeman, it becomes almost impossible to turn down further involvement anywhere.

At the conclusion of World War II, the U.S. government devoted extensive resources to rebuilding Japan and Europe. Ever since, wherever the U.S. military has gone, it has typically been followed by huge dollops of foreign aid.

Ten years from now, I fully expect that the U.S. government will still be stuck in Colombia, Haiti, Afghanistan, Iraq, the Philippines, and many other nations. This will cost money. Lots of it. How will the U.S. government pay for it?

Sticking It To the American Taxpayer

Governments have no resources of their own. They can only obtain resources by first taking them away from the private sector. If these resources were not first produced in the private sector, it would not be possible for governments to have them at all.

Governments have three basic means to extract resources from the private sector: through direct and indirect taxes, by borrowing, and by stealing wealth through inflation.

At the end of 2001, the acknowledged U.S. government debt was $3.5 trillion. However, that figure omitted the actuarial liability as of that date for future Social Security and Medicare payments. Including all liabilities, the U.S. government was in debt to the tune of $35 trillion at the end of 2001, or $120,000 for every man, woman, and child in the country!

How is the U.S. government going to raise the additional billions of dollars to pay for the growing military activity, foreign aid, and domestic security measures?

Raising taxes would be difficult. Because they are the most obvious, the government gets strong resistance against tax hikes. Another problem with pursuing that route is President Bush's posture as a tax-cutter.

The government will almost certainly borrow some of the funds. However, any significant issue of new debt will create competition with the private sector's credit needs, which will lead to higher interest rates.

One way the government could try to borrow is to require retirement plans (including 401ks and IRAs) to allocate a certain percentage of their assets to buying government bonds. Such laws have actually been introduced in Congress, though none have yet been enacted. Typically, the proposals call for 10-15% of total retirement assets to be used to purchase government bonds. Part of the supposed value to the beneficiaries of the retirement programs is that the government bond is safe from risk of principal loss. Such a step could raise several hundred billion dollars over time. But it would not be enough to pay all the bills, especially since this debt theoretically must be repaid at some time in the future.

That leaves inflation. In the old days, the government could simply crank up the printing presses. Today, it is a little more slick, using bookkeeping entries to create credit.

When the money supply increases faster than the stock of goods and services, the value of the monetary unit will decline over time. Those who spend early, before prices rise, will fare better than savers and those who wait to spend. Invariably, when the government inflates, it benefits because it is an early spender.

As the value of the currency declines, interest rates rise. Existing bonds lose market value and the value of stocks declines as companies are hit with higher interest costs.

Through inflation, the government steals the wealth of the private sector.

The situation we face today is not that much different than the Vietnam era. Back then, U.S. government spending and deficits soared. The dollar was depreciating in value so much that President Nixon closed the gold-exchange window in August 1971, completely severing any tie between gold and the dollar.

Inflation took off, then the prices of precious metals and tangible assets. Before it was over, the price of gold, silver, and many rare coins jumped by more than 1,000%!

Protect Your Wealth!

Like many others, I purchased gold and silver in the early to mid-1970s. When I sold in 1980, my few thousand dollars of investment realized enough to make a 50% down payment on a three-bedroom home in a nice neighborhood (the high down payment made it possible for me to assume the 7.75% mortgage from the seller rather than having to get new financing at 15%). My sizeable profit also caught the eye of the founder of Liberty Coin Service, and led him to persuade me buy the company when he retired.

Today we have many similarities with thirty years ago. The U.S. government has already increased spending by a huge amount to pay for the current military effort—and it has, whether it will admit it or not, also made a commitment to spend even larger amounts in the coming years.

It is virtually certain that the government will again create credit as the easiest way to obtain resources from the private sector. That makes it almost certain that the value of paper assets are due to fall in time.

Once again, the best way to protect your wealth from this government-inflicted financial suffering is to get out of the U.S. dollar and out of dollar-denominated paper assets.

As it is not possible to know for certain just what the future will bring, my best recommendation is that a significant portion of your net worth be devoted to tangible assets. Your own home is one example. But what may be safest, because they are assets in their own right and not liabilities of outside parties, are precious metals and rare coins. I recommend a minimum of 5% of your net worth be in hard assets like gold, silver, and rare coins. For many people, 10% would make sense. For the aggressive, allocating 20% of your net worth to precious metals and numismatic coins is worth considering.

This advice stands, no matter what we may see happening in the next few weeks in Iraq.

A Once-In-A-Generation Profit Opportunity, Part 2!

Last month I described how it is highly likely that there will be major changes in U.S. coinage beginning this year and that past experience has

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shown that such events lead to an explosion in coin collecting and to sharply higher rare coin prices.

I identified seven categories of U.S. coins where I think we are likely to see higher than average appreciation over the next few years. This month, I would like to explain the concepts behind these categories

1. Common Date U.S. Gold Coins, $1.00 through $10.00 (15-25% of your total rare coin holdings). Most common-date U.S. Gold Coins are selling at a fraction of their prices at the June 1989 rare coin market peak. As a percentage, denominations other than $20.00 have fallen by a greater percentage and have more potential appreciation today. They have much smaller supplies than $20.00s. We recommend coins primarily in the MS-62 to MS-64 grades.

2. Better-Date U.S. Gold Coins $1.00 through $20.00 (10-20%). A number of better-date U.S. Gold Coins can be acquired for little more than the price of common issues, even though they have many times the rarity. This makes them popular with collectors. Thus, they have the potential for appreciation even in stagnant gold markets while downside risk is limited.

3. Gold Commemoratives, 1903-1926 (10-15%). These eleven Gold Dollars and Quarter Eagles with mintages from 5,000 to 17,500 (except for the 1926 $2.50 Sesquicentennial with a mintage of 46,019). Yet they can sometimes be acquired at lower prices than for comparable quality common-date U.S. Gold Coins issued for circulation. We generally recommend MS-63 to MS-65 quality.

4. Better-Date and Better-Grade Morgan and Peace Dollars (15-25%). It used to be estimated that there were 10,000 serious collectors working on collecting top quality silver dollar sets. These coins are popular because the are large, beautiful, and historic. Many high grade specimens are affordable by the average collector.

There are even more collectors today, and the number is growing. Many of the affordable dates in MS-65 are so scarce that many collectors will never be able to own one. These are the coins we expect to appreciate more than the common-dates. For most issues, we recommend MS-64 or MS-65 quality, but some are so rare that MS-63 or lower is the practical option.

5. Better-Date and Better-Grade Minor Silver Coins (10-20%). Many of the smaller denomination silver coins are selling at small fractions of their levels at the past market peak.. Among coins we like are Walking Liberty Half Dollars in MS-65 and MS-66 quality, Standing Liberty Quarters in MS-64 and higher grades, Washington Quarters, Roosevelt Dimes, Mercury Dimes in most Mint State grades. Unlike silver dollars, these coins were not stored in government vaults. As a result, nice specimens can be scarcer than Morgan and Peace dollars.

6. Silver Commemoratives, 1892-1954 (10-15%). Of the 144 different dates and mintmarks of 50 different coin designs, fully 70 of them have mintages of less than 10,000! Most issues are now selling at a tiny fraction of their 1989 peak prices. For most issues we recommend MS-65 or MS-66 grades. We recommend collecting a variety of these coins.

7. Copper and Nickel Coins and Special Opportunities (5-10%). There are a number of opportunities that come up in copper, nickel, gold, and silver type coins. Buffalo Nickels are a popular series. Shield Nickels and Liberty Nickels are incredible bargains right now. Some modern gold, silver, and copper-nickel commemoratives are likely to see higher demand from an influx of new collectors. There are a number of 19th Century silver Type Coins now available at huge discounts to 1989 prices.

Currently, I am less favorable toward the Gold Commemoratives. Since four of the issues are related to the Louisiana Purchase or the Lewis & Clark Expedition, they have been much in demand lately. Nice coins are hard to find and not as cheap as they used to be..

I especially like coins in all the other categories. Prices are starting to move up, but we really haven't seen that much appreciation yet.

For most rare coin investors, I would suggest a diversity of coins because they will each appreciate at different times and degrees. If you came to a time where you needed to sell a certain dollar value of your holdings, you simply look for which coins are relatively strong at the time and sell those.

One side benefit is that most rare coin collectors have fun working on their collections. A number of years ago we noticed that, of serious collectors who maintained their holdings for at least five years, over 90% of them sold out at a profit. Maybe that percentage isn't as high today, but we find that collectors tend to fare better than those simply interested in coins as an investment. If you take the time to learn about coins, you will be in a better position to identify bargains and to make astute purchases. You will also have a better feel for the market to know when to sell. So just have fun. Without specifically planning to, your hobby is likely to reward you handsomely in the next few years.

For excellent suggestions on desirable bargains in today's market, please refer to this month's offerings of **Rare U.S. Gold Bargains**, **Better-Date Gem Mint State-65 Morgan Silver Dollars**, and **Classic U.S. Silver Commemoratives**. We have many other nice coins in stock. Feel free to call on us.

Gold and Gold Coins

Gold closed today at $337.50, down $15.50 (4.4%) in the past 13 days. Gold has dropped 10.9% from its $378.75 close on February 4.

When the price of gold fell below $340 last Thursday, we enjoyed a tremendous surge in retail demand. Retail liquidation virtually came to a halt.

Even at today's lower price, gold is still higher than it was most of the time from 1997 through the end of 2002.

As I explained in February, I expected the price of gold to fall as the uncertainties over Iraq were swept away. Despite that, I still consider gold to be in the early stages of its next major bull market.

Gold started rising last year on the basis on fundamental supply and demand factors that had little to do with Iraq.

On the supply side, central banks continued to limit their sales of gold reserves. They also scaled back their leasing activity because falling lease rates were no longer worth the risk of loss of capital.

Anticipating rising gold prices, the

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gold mining companies became more aggressive in reducing their pre-sold gold contracts in 2002 by delivering more new production against those contracts rather than selling on the open market.

Yesterday, a report sponsored by NM Rothschild called *The Gold Hedging Indicator* was released. The report studied 84 gold mining companies that produce 66% of the world's gold. At the beginning of 2002, these companies had pre-sold 95.7 million ounces of gold. By the end of the year, they were down to just 80.9 million ounces of pre-sold gold.

"This reduction in hedging more than offsets the amount of central bank gold sold during 2002 under the terms of the European Gold Agreement," the report said.

As a group, these companies reduced their pre-sold position from two years of production down to 1.6 years.

Gold demand in the private sector was actually down in 2002 from 2001 levels, but overall demand was probably higher. The main driver of higher demand right now is China. The Chinese central bank added at least 50% to its gold reserves in 2002, perhaps buying as much gold as all other central banks were selling. In addition, the Shanghai Gold Exchange opened in 2002, providing a means for private citizens and companies to buy and sell gold. Domestic gold supplies have proved insufficient to meet demand, so the Exchange has changed its rules to allow foreign companies to become members and bring gold into China.

These factors of supply and demand will not be affected by what happens in Iraq. Although gold may weaken somewhat from its current levels, I still see a high likelihood that gold will top $400 before year end.

The falling dollar versus the Euro has resulted in cheap gold prices in Europe. The European gold buying spree continues, unaffected by events in Iraq. Supplies of coins such as the British **Sovereign** (7.6%), French **20 Franc Rooster** (8.7%), and Swiss **20 Franc** (8.7%) are drying up in the U.S. Expect premiums on a wide range of European gold coins to rise further in the next few months.

Premiums are much the same as last month for 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%), but supplies are getting thinner. It used to be that most wholesalers would be able to fill our laundry list of gold bullion needs. Today, we often have to split our purchases among two or three suppliers because none have everything in stock..

Currently, the Australian **Kangaroo** (5.5%) is in thin supply because shipments are taking longer to clear U.S. customs. It would not surprise me to see other premiums rise.

In volatile gold markets such as we have seen the past two months, it can be challenging to find bargains in rare gold coins. After a sudden drop, a number of dealers keep their prices up for a time. Other dealers become anxious to sell, fearing a further drop in gold prices. It is not unusual for us to be quoted prices differing by 25% for the same coin. Obviously, we pass on the high-priced specimens and jump on the bargains. It takes patience and persistence, but it can be done.

The Month

Gold Range	$20.75	5.9%
Net Change	-15.50	
Silver Range	.22	4.8%
Net Change	-.17	
Gold/Silver Ratio	75.7	
Net change	-0.5	
Platinum Range	21.00	3.0%
Net Change	-6.00	
Platinum/Gold Ratio	2.04	

Date	Gold	Silver	Platinum
Mar 05	353.00	4.63	693.00
Mar 06	356.75	4.65	689.00
Mar 07	350.75	4.67	685.00
Mar 10	354.75	4.67	704.00
Mar 11	350.50	4.68	696.00
Mar 12	346.50	4.63	697.00
Mar 13	336.00	4.54	683.00
Mar 14	336.50	4.54	684.00
Mar 17	337.25	4.45	687.00
Mar 18	337.50	4.46	687.00

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.

Silver and Silver Coins

Silver closed today at $4.46, down 17 cents (3.7%) in the last two weeks.

Half of the decline hit yesterday, matching recent weakness in gold. It is near the $4.40 level at which a number of fabricators have jumped in to buy inventory in the past year.

There is no sensible reason why silver should be this low in price today. New and recycled supplies of silver have fallen far short of physical demand every year since 1990. In that time, over 1 billion ounces of silver inventories have been consumed. Professional tabulations of silver statistics a decade ago showed barely a billion ounces of silver in inventory. Today, these same researchers still report over 500 million ounces in inventories. Obviously, the earlier inventory figures were too conservative. Had they been correct, the price of silver would have gone through the roof long ago.

Although the published inventory figures are somewhat suspect, it is still clear that silver is being consumed at a huge rate. That will not change for at least the next few years. Someday, prices are going to have to rise.

Demand for physical silver continues at a torrid pace, driving up premiums. U.S. **90% Silver Coin** (13.2%) now costs more per ounce than **100 Ounce Ingots** (12.6%), but I still favor it for most purposes because of its greater divisibility and liquidity. When you call to purchase, ask what is the current best buy.

Numismatic silver coins such as Morgan and Peace Silver Dollars and Classic U.S. Silver Commemoratives are very strong right now. At a huge coin show in Baltimore last week, we sold a surprising number of coins to other dealers for more than our "retail" price. Although I think that rare coins will continue to be incredible bargains over the next 6-12 months, they are definitely less expensive today than what I think they will be in a few years.

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