

Liberty's Outlook

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Gold And Silver—On The Way Up!

P. 3: Where To Invest \$50,000 In Rare Coins Today

Five months ago, I said I would not be surprised if the price of gold reached \$500 by the end of February 2005. I added that if gold reached that level, then I would expect silver to top \$10.00 as well.

Well, neither metal reached those levels by this past Monday. In fact, they are not much higher than they were last November.

In January, I projected that if gold reached \$500 and silver \$10 by the end of February, then there was at least a 50% chance that gold could reach \$600 and silver \$20 by the end of 2005.

Well, since gold and silver didn't reach those levels by the end of February, how do I size up the markets for the remainder of 2005?

About the same.

Although it is perilous to make extremely short-term predictions, I think we will see gold reach \$500 within the next few weeks or months and there is still a 50% chance of it reaching \$600 by year-end.

As for silver, I think it will soon climb top \$8.00, reach \$10.00 before mid-year, and still has a 50% chance of reaching \$20 by December 31!

The volatility in the gold and silver markets in February confirmed my expectations that 2005 will be a boom year for gold and silver (and rare coins).

Why I Am Still Optimistic

After the significant decline in the U.S. dollar over the past two years, there was bound to be an episode of short-term profit-taking, even though the long-term outlook is for the dollar to decline even further.

As the dollar temporarily surged early this year, gold and silver prices slipped somewhat. Savvy bargain-hunters increased their purchases of physical gold and silver. Liquidations declined.

When the dollar suddenly fell again in the past two weeks, gold and silver jumped quickly. From February 2 to February 20, gold was up 3% and silver climbed 11%.

The underlying reasons that prompted the decline in the value of the dollar, and the quick rise in gold and silver prices, are only some of the factors that should send the metals spiraling upward over the balance of this year.

Some of the reasons given for the drop in the dollar in February were a reaction to the decline in U.S. consumer confidence, the rising price of oil, and the apparent move by the South Korean central bank to lighten its holdings of U.S. dollar foreign exchange reserves.

South Korea's central bank has about \$200 billion in reserves, the largest portion of which is held in U.S. dollars or U.S. Treasury debt. Though South Korea's central bank reserves may be among the top 10 nations in the world, its holdings are still dwarfed by three other Asian powerhouses—Japan (\$700 billion), China (\$610 billion), and Taiwan (\$240 billion).

Shortly after the report that South Korea's central bank would be rebalancing its reserves to lighten its holdings of U.S. dollars, that central bank announced that it would not be selling dollars to accomplish that. That temporarily stopped the drop of the dollar, but the text of the second announcement has me wondering.

First, it is entirely possible that the U.S. government exerted pressure on Korea to disavow the earlier reports. The pressure may have included a threat to withdraw financial or military support to South Korea, or a secret promise to extend even greater financial support in the future. I doubt that the South Korean government made the second announcement unilaterally.

Second, the text of the second announcement left open the possibility that South Korea may reduce its proportion of dollar holdings by simply not accepting any more dollars. If the U.S.

dollar makes up 75% of Korea's \$200 billion in reserves now, that would only be 60% of \$250 billion that Korea's reserves are likely to reach in the next few years.

There have been several rumblings in the past few months that various central banks who are large holders of U.S. dollars may either stop buying or may even look to swap part of their existing holdings for other currencies and gold. If a much smaller player like South Korea can bring on this much disruption, imagine what could happen if two or more such nations or even larger ones take such a step.

Some of the strength in the U.S. dollar in January and February may have been attributable to learning that the French central bank was beginning to sell gold reserves, under the terms of the renewed international agreement on central bank gold sales.

While this may have spooked those with little knowledge of gold's fundamentals of supply and demand, readers of this newsletter would know better.

As I have explained several times, the renewed agreement calls for central bank annual sales of 16 million ounces of gold each year for five years, up from 12.8 million ounces under the first agreement. Switzerland is just now completing its massive gold sales, which took up more than 50% of the worldwide quota in the first agreement. The Bank of England, the second largest seller under the first agreement, finished their sales a few years ago.

So, entirely new sources of central bank gold sales would be needed to avoid additional declines in gold supplies. There are few nations or official agencies with enough gold reserves to step into the breach—the U.S., International Monetary Fund, Switzerland

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land, Germany, France, and Italy come to mind).

Although the French government and its people have a long-term reputation as gold lovers, things change. The government needs to find ways to pay for its soaring welfare and retirement costs. I could understand the appeal to a politician to liquidate assets to pay current expenses, rather than to raise taxes.

As for other gold sources—physical product at mines is barely holding at prior levels, despite higher prices. A significant percentage of current production is still being used to cover pre-sold gold contracts. According to Gold Fields Mineral Services, a major gold industry research firm, about 15 million ounces of newly mined gold was used to close out the old

hedge contracts in 2004 rather than being sold at today's higher gold prices.

By the end of 2004, the mining industry's remaining open pre-sold gold contracts still amounted to about 3/4 of one year's worldwide production!

The mines are aggressively closing out these old contracts for one main reason—they expect gold prices in the future will be even higher than they are today!

On the demand side, physical gold demand is so strong that secondary market supplies of the U.S. 1 Oz **American Eagle** are still tight. As a result, American Eagles are selling at an even higher premium above gold value (by about \$6 per ounce) than in normal times.

Overall, there are no shortages of physical gold bullion, just for the 1 Ounce Eagles.

The major consumer demand for gold is in the form of jewelry. While higher prices have knocked down demand in several countries, it has actually held steady in others and is even

higher in a handful of Asian nations. Overall, jewelry demand is close to even with year-earlier levels.

Awareness of other threats to the value of the U.S. dollar is becoming more widespread. For instance, the brokerage firm Morgan Stanley is taking out full-page ads to list what financial events they consider to have at least a 50% chance of occurring by the end of this year.

Among their projections, they forecast that the U.S. stock market will be flat this year, that inflation will rise (as indicated by interest rates), that commodity prices will rise, and that the lower value of the U.S. dollar will do nothing to reduce the size of the U.S. trade deficit.

Each of these factors could boost precious metals prices in 2005 if they come to pass. If two or more of them happen, the increases will accelerate.

If higher interest rates cut down demand

The Top Values In Common-Date, High-Grade U.S. Gold Coins Today

Most common-date, high-grade U.S. Gold Coins are extraordinarily attractive bargains today. However, when you consider relative rarities and price histories, the coins that appear to be the best values are not those most often recommended by some of our competitors. Look at the data and judge for yourself.

First, consider the relative rarity of the 12 most popular types of U.S. Gold coins. Here are the combined recent Professional Coin Grading Service (PCGS) and Numismatic Guaranty Corporation (NGC) populations to give you some idea of relative rarity:

Rarity Coin	PCGS/NGC Population for this grade and higher grades and relative rarity to \$20.00 St Gaudens			Coin	MS-63	MS-64	MS-65
	MS-63	MS-64	MS-65				
\$1.00 Liberty Type 1	7,835	3,956	993	\$5.00 Liberty	51,951	18,924	3,785
\$1.00 Indian Type 2	1,599	840	195	\$5.00 Indian	30,655	9,010	969
\$1.00 Indian Type 3	14,691	9,618	5,331	\$10.00 Liberty	59,631	16,212	3,554
\$2.50 Liberty	37,980	21,773	8,541	\$10.00 Indian	65,775	24,233	5,089
\$2.50 Indian	61,728	25,378	4,168	\$20.00 Liberty	236,621	74,201	9,873
\$3.00 Indian	5,449	3,064	919	\$20.00 St Gaudens	854,154	471,364	143,403

Value Coin	M-63 Prices			'05 Price % of '89	MS-64 Prices			'05 Price % of '89	MS-65 Prices			'05 Price % of '89
	6/89	3/05			6/89	3/05			6/89	3/05		
\$1.00 Liberty Type 1	\$ 4,800	\$ 875	18%	\$ 8,550	\$ 1,750	20%	\$25,700	\$ 4,400	17%			
\$1.00 Indian Type 2	\$21,100	\$12,500	59%	\$28,100	\$21,000	75%	\$60,000	\$36,000	60%			
\$1.00 Indian Type 3	\$ 3,550	\$ 795	22%	\$ 5,275	\$ 1,250	24%	\$ 9,500	\$ 2,100	22%			
\$2.50 Liberty	\$ 2,525	\$ 825	33%	\$ 4,800	\$ 1,150	24%	\$10,700	\$ 2,100	20%			
\$2.50 Indian	\$ 2,375	\$ 1,350	57%	\$ 5,150	\$ <u>2,000</u>	39%	\$15,000	\$ 6,200	41%			
\$3.00 Indian	\$11,600	\$ 5,750	50%	\$16,250	\$ 8,000	49%	\$45,000	\$ 12,750	28%			
\$5.00 Liberty	\$ 3,550	\$ 795	22%	\$ 7,850	\$ 1,600	20%	\$20,000	\$ 3,850	19%			
\$5.00 Indian	\$ 6,550	\$ 1,800	27%	\$13,550	\$ 4,000	30%	\$39,000	\$15,000	38%			
\$10.00 Liberty	\$ 3,800	\$ 895	24%	\$ 7,875	\$ 1,950	25%	\$19,000	\$ 4,600	24%			
\$10.00 Indian	\$ 3,000	\$ 925	31%	\$ 7,550	\$ 1,850	25%	\$20,300	\$ 4,400	22%			
\$20.00 Liberty	\$ 1,875	\$ 795	42%	\$ 5,000	\$ 1,550	31%	\$17,200	\$ 4,600	27%			
\$20.00 St Gaudens	\$ 1,030	\$ 660	64%	\$ 1,950	\$ 795	41%	\$ 4,950	\$ 1,400	28%			

Note: coins in **bold** are highest recommendation; coins in **bold italics** are high recommendation; coins underlined are recommended; coins in standard text are "hold" if you already own. None of the type coins are at high enough price levels where we recommend selling them.

Among factors to consider other than population, rarity, and current prices relative to those at last major market peak in June 1989 are gold content and long-term popularity with collectors. The Type 1 and Type 3 Gold Dollars, for instance, although far rarer than the \$20.00 St Gaudens, have 95% less gold than the Saint and have historically been less popular with collectors because of their relatively small size. Thus, while the \$1.00 golds should do very well in the next few years, they may not be the top performing types of U.S. Gold Coins.

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for purchasing homes, the booming housing market could come to a halt.

What about silver? Although silver is not officially a financial asset, changes in silver demand for investment purposes have a major impact on the marginal demand for silver. Silver is a much smaller market than gold. Although both metals tend to move in the same direction, silver is much more volatile and will tend to rise and fall by a greater percentage than gold.

I expect that the gold/silver ratio will fall significantly this year, possibly falling below 40. Although I think it is wise to hold significant amounts of gold, I am quite comfortable with holding equal amounts of silver and gold.

I normally recommend periodic acquisitions of precious metals as your increased wealth permits. However, I don't think there is much time left to get into the market at today's price levels.

While there is some possibility that we could see some price declines from current levels, I think they will be relatively modest. Compared to the huge upside I see for gold and silver, I don't think you should wait much longer to take a larger position in precious metals.

Rare Coins—The Heat Is On!

Money is pouring into the rare coin market at a rate I have never seen.

For instance, of the 15 rare coins that have sold publicly for at least one million dollars, five of them sold in 2005!

In years past, auctions that realized \$7 million were important. The all-time record largest auctions were about \$25 million. Not any longer.

At the Florida United Numismatist Show in Orlando in early January, a single auction company sold off more than \$60 million of merchandise, including three lots above \$1 million and two other lots that just missed! (I was honored that the new owner let me personally inspect the Brasher Doubloon that he had just acquired for almost \$3 million.)

Where are dealers and wholesalers coming up with the money to digest such a large amount of inventory?

—From customers.

—From a greater number of customers than ever before.

—From a greater number of affluent customers than ever before.

One of the main owners of the auction company told me that there were at least a half dozen centimillionaires in attendance at their auctions in Florida.

When I attended the huge coin show in Long Beach, California last week, I did

see some resistance among coins that have undergone huge price jumps in the past few years. But other coins, almost across the board, were in strong demand. Sales of coins I took to the show were high. Plus, of the coins that I purchased there to bring home for retail customers, dealers at the show were willing to pay strong enough prices that I resold about 1/3 of them right there at the show.

Although rare coins are much riskier and have wider buy/sell spreads than precious metals or other mainstream investment options, the appreciation potential for the right coins right now is extraordinary. When I look at flat equity markets, insignificant interest rates, and a worrisome housing market, I get a lot more drawn to an area where I see the potential for many prices to increase five to ten times in the next few years.

Most collectors really are not investors, even if they pretend that they are buying a particular coin as an investment. Collectors tend to hold their collections for long periods, with little regard for market cycles. A coin investor, on the other hand, takes a mercenary approach, buying what represents a good value and selling at the right time, with little regard to the beauty, history, and rarity of the particular coins.

Although we have many customers who are avid coin collectors, there are also those whose focus is on the investment prospects for rare coins. For them, I would like to reveal my thoughts on—

Where To Invest \$50,000 In Rare Coins Today

Although almost every part of the numismatic spectrum is thriving right now, I would focus mostly on U.S. coins. They have the most active market, with the closest buy/sell spreads.

Rather than laying out an exact list of what to purchase, I think it makes more sense to give a flexible allocation among several categories. Here is how I might spend \$50,000 today:

High-Grade Common-Date U.S. Gold Type Coins (10-20%). If I were going to spend 20%, I would probably go with MS-64 specimens of the \$1.00 Liberty Type 1, \$1.00 Liberty Type 3, \$2.50 Liberty, \$5.00 Liberty, \$10.00 Liberty, and \$10.00 Indian. See the list on page 2 for the best recommendations.

Better-Date U.S. Gold Coins (10-20%). You can acquire a number of dates that are significantly less common than the common-date dates at little premium to the common-date price.

Let me give you a perfect example. PCGS and NGC together have certified 4,491 specimens of the 1907 \$2.50 Lib-

erty in MS-64 or higher quality. At a price of \$1,150, I think it is a great value. However, at the Long Beach show, I picked up an 1879 \$2.50 Liberty certified MS-64 by NGC. PCGS and NGC have certified only 96 MS-64 or nicer pieces! It lists in *Coin Values* for \$3,500. Yet, we can offer this coin for only \$1,950. Between the 1907 and the 1879, I would take the 1879 every day as the better value.

To some extent, some coins in this category might be acquired instead of coins in the previous category. Between the two, you might shoot for 30% of the total. So, if I spent about \$10,000 for the coins in the first category, I might go for only \$5,000 here.

U.S. Gold Commemoratives (5-10%). I have revised this category from being just the Classic 1903-1926 Gold Commemoratives. The earlier gold commemoratives can sometime be purchased for at or below the price of the \$1.00 and \$2.50 type gold coins, even though these commemoratives are scarcer. However, the Classic Gold Commemoratives don't have as many bargains right now with the run up of the Louisiana Purchase and Lewis & Clark Expedition issues. To this category I now include modern commemorative issues where the relative rarity indicates that a higher price is warranted. Examples would include the 1984-P, 1984-D, 1984-S Olympic Proofs, the 1982 Frank Lloyd Wright, 1983 Alexander Calder, and 1984 John Steinbeck Half Ounce American Arts Commemoratives, and the 1983 Robert Frost and 1984 Helen Hayes One Ounce American Arts Commemoratives. Don't pay a huge amount extra just to obtain high-quality certified examples of the modern Commemoratives (like \$700 for the 1982 Louis Armstrong One Ounce American Arts Commemorative which has a much higher mintage).

Of my \$50,000, I would spend \$4,000 among these modern commemoratives.

Better-Date U.S. Morgan and Peace Dollars (10-20%). See my analysis in last month's newsletters of the dates and grades that represent the best values today. I would spend \$10,000 primarily among the coins that have the highest recommendation. I would also consider coins that are highly recommended or recommended if they can be obtained at attractive discounts to current catalog values.

U.S. Type Coins, Mint State and Proof (10-20%). I would spend \$8,000 among a variety of coins in this category. There are a number of 19th Century Type Coins that are selling at huge discounts to their prices at the last major market peak. I would focus on those coins now selling for less than

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one-fourth of the June, 1989 levels. In addition, I would look at 20th Century coins such as Buffalo Nickels, Mercury Dimes, Standing Liberty Quarters, and Walking Liberty Half Dollars.

For instance, common-date high-grade Walking Liberty Half Dollars have fallen about 25-35% in the past few months. I think they represent good value right now.

Classic U.S. Silver Commemoratives (10-20%). I would like to give this category a heavier weighting, but there are so few coins available that it would be hard to find enough. Put me down for \$8,000 in this category. I would especially look for the coins that are now selling for less than one-third of their June, 1989 levels. I would collect no more than one or one year set of each type, rather than multiple dates of the same series (Arkansas or Oregon Trails, for instance).

Special Opportunities (5-10%). At any time, there are opportunities that are too good to pass up. These special circumstances are constantly changing. A recent example is the first 2004 Nickel issued by the Mint. It wasn't until after the second nickel came out that the general public really took notice and scrambled to acquire the coins. When they first came out, I personally put aside some of both mints at a cost of about 8 cents per coin. Yesterday, LCS sold a large quantity of the P-mint coins (on which a widely reported small quantity of errors have been reported) to another dealer at 25 cents per coin.

Out of the \$50,000, I would save \$5,000 just for such special opportunities.

Special offer: We have helped a number of customers over the years who have asked us to find rare coins that represent excellent values for them. In many instances, we have been able to acquire great coins at better than usual prices. We currently have the capacity to help about 20 more customers who wish to spend \$50,000 each on rare coins. The first such customer to call will have the option to purchase the 1879 \$2.50 Liberty described above as part of their acquisitions.

But Watch Out For Traps

The strength of the coin market is also bringing out the less-than-scrupulous marketers. Let me give you two examples of some of what to watch out for.

A company in Texas recently took out a full-page ad in our local newspaper offering the supposedly scarce 2004 1/10 Ounce Gold American Eagles at a price

The Month

Gold Range	\$23.75	5.6%	
Net Change	+11.75		
Silver Range	.97	14.4%	
Net Change	+.56		
Gold/Silver Ratio	59.3		
Net change	-3.4		
Platinum Range	23.00	2.6%	
Net Change	-7.00		
Platinum/Gold Ratio	1.99		
Date	Gold	Silver	Platinum
Feb 02	421.00	6.74	870.00
Feb 03	416.50	6.67	863.00
Feb 04	414.00	6.63	863.00
Feb 07	413.50	6.55	864.00
Feb 08	412.50	6.55	857.00
Feb 09	412.75	6.58	850.00
Feb 10	417.00	6.95	868.00
Feb 11	420.25	7.19	869.00
Feb 14	425.75	7.32	873.00
Feb 15	425.75	7.35	852.00
Feb 16	425.50	7.25	854.00
Feb 17	427.25	7.35	861.00
Feb 18	427.00	7.40	863.00
Feb 21	closed		
Feb 22	434.25	7.52	873.00
Feb 23	434.50	7.44	865.00
Feb 24	434.25	7.38	862.00
Feb 25	434.25	7.29	857.00
Feb 28	436.25	7.35	864.00
Mar 01	432.50	7.22	861.00
Mar 02	432.75	7.30	863.00

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.

that was competitive with our 100-coin rate. Two days ago, someone who responded to their ad visited our store to show us what they had actually purchased. When they asked to buy the product offered in the ad, the sales representative went to great lengths to persuade them to instead purchase the 4-coin 2005 Gold American Eagle set certified in MS-69 quality. The price this customer paid was over \$2,000, more than double what you would pay LCS for these coins. This person will be returning the purchase for a refund, then come to LCS for future purchases.

One of our mail order customers just sent us a flyer enclosed with an investment newsletter they receive. This particular newsletter had endorsed LCS in the past (for no compensation) but lately has thrown in their lot with

marketers who pay them for their cooperation. The offer was for South African 2005 Proof Krugerrands, at prices nearly double what LCS would charge for our Proof Krugerrands. At the LCS price, they are a good buy, but not at their prices.

If you have questions about offers from other dealers, you are welcome to pick our brain. Just give us a call.

Gold and Gold Coins

Gold finished today at 432.75, up \$11.75 (2.8%) from four weeks ago. The range of prices over the last four weeks is the widest we have seen since December.

There is not much room left, so let me just warn you away from the too-high premiums on the 1 Oz U.S. **American Eagles** (5.9%) The premium is down slightly from last month, but I still look for it to get down to about the 4.5% premium level within a few months. Don't pay extra now just to see part of the value evaporate.

Instead, I recommend going for the issues with the lowest cost over gold values. The Austria **100 Corona** (3.5%), South Africa **Krugerrand** (3.7%), and U.S. **American Arts Medallions** (3.7%) are my favorites. Among smaller coins, the British **Sovereign** (7.5%), France **20 Franc Rooster** (8.9%), and Swiss **20 Francs** (8.9%) are money-savers.

Common-Date U.S. Gold Coins are up somewhat in the past month, partly in response to the recent strength in gold spot prices. Expect prices to trend upwards.

Among **Better-Date U.S. Gold** issues, this month we can offer the **highest-quality 1982 Frank Lloyd Wright Half Ounce American Arts Commemoratives** anybody has ever offered anywhere—including the only Near Perfect MS-69s that have ever been certified by a major grading service.

Plus, we have held aside some recent purchases of **Classic European Gold Coins** to give you the opportunity to own some coins that you don't come across everyday.

See our enclosed flyers for details.

Silver and Silver Coins

Silver closed today at 7.30, up a strong 56 cents (8.3%) drop from last month.

Higher prices have led to a slight drop in premiums. But demand has remained so strong, that premiums are not down as much I would have expected. The best buy is still U.S. **90% Silver Coin** (3.1%).

We got some great buys on **Morgan Dollar Rarities** and offer them to you at money-saving prices. See our enclosure.

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