Liberty's Outlook

Volume 13 Issue 3 Liberty Coin Service's Monthly Review of Precious Metals and Numismatics March 7, 2007

Gold And Silver Prices Take Off, Then Stumble!

P.3 Best Values In U.S. Gold Type Coins Today!

Take a look at the daily closing spot prices on the last page. For almost all of 2007, the prices of gold and silver had been strong. They closed at $686.25 and $14.67 on February 26, up 8.1% and 14.3%, respectively, since the beginning of the year.

Then the bottom fell out, not-so-coincidentally at the same time that the world's stock markets fell.

Within a few days, gold fell 7.2% and silver declined 13.8%. Two days ago, gold touched a temporary bottom of $637.00 and silver $12.64.

With signs that the correction had run its course, buyers have stepped up over the past two days to help prices recover.

The drop in the stock markets had little to do with why gold and silver prices fell. The amount of investors who might have sold precious metals (assets where they were in a profit position) to meet margin calls on their falling stocks were not enough to cause gold and silver prices to drop.

Instead, central banks and sophisticated investors around the world are growing increasingly wary of holding investments in U.S. dollars that are depreciating from high inflation (whether or not the U.S. government chooses to accurately report such statistics).

Stock market investors are worried that the U.S. housing market is in more precarious condition than recently reported (with some forecasting that "the worst was over"):

- HSBC, one of the world's largest banks, recently reported that losses from troubled mortgages are running about 20% higher than they had budgeted.
- Shares of New Century Financial Corporation (NEW), a company that specializes in giving mortgages to less credit-worthy borrowers, fell about 67% two days ago and is currently trading at barely 10% of its 52-week high price.
- Although the unemployment statistics in the construction, real estate, and mortgage markets have been grim, they likely understate the job losses. Home construction is reported to be one industry where a higher percentage of illegal aliens are employed because they are willing to work for less money and are paid in cash. When these workers lose jobs, that doesn't show up on the unemployment data.
- Over this past weekend, Moody's Investor Services raised the credit rating for JP Morgan Chase bank, saying that if the bank went into default that it would be bailed out by the U.S. government?!

But a scary real estate market isn't the only reason that central banks and investors are moving away from the U.S. dollar. Let me just name a few areas of concern:

- The huge U.S. federal government deficits.
- The high inflation of the U.S. money supply where analysts figure that the M3 definition of money is up at least 10% since the U.S. government stopped reporting that statistic a year ago. That figure is much higher than the government's alleged inflation rate of roughly 3%
- Falling U.S. corporate profits.
- The additional financial regulatory burdens imposed on U.S. companies over the past few years.
- Iran and North Korea's nuclear ambitions.
- The quagmire of Iraq.
- Shortly before the stock market

2007 Year To Date Results

Through March 6, 2007

Precious Metals	
Platinum	+4.9%
Palladium	+3.9%
Gold	+1.4%
Silver	+0.4%
Numismatics	
MS-63 $20.00 Liberty	+2.4%
MS-63 $20.00 St Gaudens	0.0%
MS-65 Morgan Dollar	-3.3%
US Dollar vs Foreign Currencies	
Switzerland Franc	+1.7%
Euro	+1.7%
Canada Dollar	+1.4%
Japan Yen	+0.9%
India Rupee	-0.2%
China Yuan	-0.6%
Great Britain Pound	-0.6%
US and World Stock Market Indices	
Frankfurt Xetra DAX	-0.9%
London FT 100	-2.6%
NASDAQ	-3.1%
S&P 500	-3.1%
Dow Jones Ind Average	-3.3%
Tokyo Nikkei 225	-3.4%
Russell 2000	-3.5%

Inside this issue:

(Continued from page 1)

drop, one analyst reported that the Dow Jones Industrial Average had passed a 53-year record for the most consecutive trading days without a 2% daily correction.
- The long-term U.S. trade deficit which has grown to be the highest percentage of Gross Domestic Product (GDP) of any currency that did not collapse within a few years.

There are many more worries, but that gives you the idea. The point is that the recent rise in the U.S. stock markets did not seem to be built on solid news. Some have claimed that the decline in the Chinese stock market at the beginning of last week is the "reason" that stock prices fell in the U.S. and elsewhere in the world, but that is not true. At most, it was merely the straw that broke the camel's back, a back already heavily burdened and near collapse.

So, while there was plenty of reason to expect that U.S. stock markets would decline, and may even fall further this year, the gold and silver market has the opposite outlook.
- Both metals are still suffering from fundamental long-term supply shortages.
- Investment demand in both metals has soared over the past year, especially in physical form.
- New industrial applications are being developed to keep demand rising. Some of the latest new products for silver, using its anti-bacterial properties, are toothbrushes with silver imbedded in the bristles, paper for use in hospitals such as for patient charts (and other places where germs are prevalent), horse care products, and wound dressings.
- South Africa's gold production in 2006 was its lowest in 84 years!
- The signatories to the Central Bank Gold Agreement are falling far short of their annual quota of gold sales.
- Gold mining companies allocated about 12.6 million ounces of 2006 mine output to closing out pre-sold contracts rather than making this quantity available for sale. Still, because of rising prices, the gold mines owed more than $10 billion to repay pre-sold gold contracts that were still open at the end of 2006.

None of these factors supporting higher gold and silver prices has changed this year, which means prices need to attain far higher levels to reach equilibrium.

That prices of both metals are as low today as they are can be blamed on some major market manipulations. Between one and four major traders have market-breaking short positions in the New York COMEX silver commodities exchange. And, as is being more solidly proven as time goes on, the U.S. government, some other major central banks, international agencies such as the International Monetary Fund and the Bank for International Settlements, and major bullion banks have surreptitiously unloaded tens of millions of ounces of gold onto the market over the past decade to try to hold down prices.

Despite such manipulations, gold and silver prices are up sharply in the last few years. Silver has tripled and gold has jumped 150%.

During an overall boom market, there will be periodic corrections. With the strength that gold and silver showed for the first eight weeks of 2007, a correction could have happened at any time.

What actually happened is that the drop in the stock market was used as a pretext for major manipulations in the gold and silver market to try to knock down prices.

In the February 27 weekly Commitment of Traders (COT) report issued by the COMEX for the silver market, the four or fewer large short position traders had a net short position of 227 million ounces. One week later, this short position had ballooned to 263 million ounces, a 15.9% increase! Understand that no physical silver entered the market, but that paper traders sold about $500 million in paper promises to deliver silver. In an investment market already jittery over the stock market decline, it was easy to knock down the price of silver so far so fast.

The same goes for gold. The net short positions rose during the week to their second highest level ever, although the data are more difficult to tell you the quantity of ounces of paper gold sold onto the market.

Actually, there had been paper gold being dumped on the market ever since gold rose above $640. The attempted manipulations in the weeks before February 26 didn't stop the price from rising. But it did work when everyone was looking at a shaky stock market.

Prices have started to recover in the past two days, partly because savvy investors are taking advantage of what will likely prove to be a bargain buying opportunity. Prices are also recovering because several short traders are buying to cover the positions and take profits.

So, from now to the end of the year, I think the prospects look much stronger for gold and silver than for paper assets.

Even if you can't jump in on these temporary (in my judgment) dips, I still think today's prices are just a fraction of what they will be in coming years. Even if you bought gold and silver at the $686.25 and $14.67 spot prices of February 26, I expect that, down the road, you will be happy you did.

Another Rare Coin Undervaluation Index™

Last month, I unveiled my analyses of the Morgan Silver Dollar, Peace Silver Dollar, and U.S. $20.00 St Gaudens series, in an effort to identify the dates and grades that have the top prospects for future appreciation. I then promised to add further analyses this month.

Well, the good news for LCS is that customer response to these analyses has been tremendous. We simply cannot find coins fast enough to meet demand, no matter how many coin shows we attend or how many phone calls we make.

So much time has been spent looking for coins to satisfy customers that there was less time available to prepare new analyses. This month there is only one to report, that for the twelve most common types of U.S.

(Continued from page 2)
gold coins.

This analysis (see box below) was figured with slightly different data than for the previous three reports. To eliminate any personal bias, I have used the current *Coin Values* catalog values as part of the analyses, along with the population of coins certified by the Professional Coin Grading Service (PCGS) and Numismatic Guaranty Corporation (NGC), and our retail prices at the last major market peak in early June 1989. For the analysis of U.S. Type Gold Coins I used our actual selling prices instead of catalog values. We regularly buy and sell these coins, so I have data that isn't biased. By comparing selling prices today versus 1989, I think it is slightly more accurate than catalog values today versus 1989 selling prices.

Remember, these analyses have some limitations as I discussed last month. Another two limitations, which I didn't discuss last month, are definitely worth mentioning now.

First, among collectors of U.S. Gold Coins, the Double Eagles are, by far, the most popular that are collected by date. In addition, many collectors of a U.S. Gold Type set only collect the $2.50 through $20.00 denominations. So, even though the table below indicates that the common-date $1.00 Gold issues are screaming bargains and that the common-date $20.00 Saints are not, you have to factor in collector demand to reduce both extremes of the Undervaluation Index™.

Second, a major factor in the value of the Double Eagles is the high value of their gold content (which is also a major reason for their popularity among collectors and investors). This is also part of the reason why there are relatively fewer collectors of the Gold Dollars, which contain 95% less gold than the Double Eagles.

Yes, I do think that nice Gold Dollars are extremely good values at today's prices, but I don't think their appreciation prospects are hundreds of times better than Common Date Saints. From reviewing past history, I would expect them to outperform Saints by three to five times in a boom market.

The factor of intrinsic value would not be significant in any other analysis I'll prepare, because usually the coins will all have the same metal content.

Next month, I plan to add a few more analyses. Among those that will be easiest to prepare are Classic Gold Commemoratives, Standing Liberty Quarters, Walking Liberty Half Dollars, and $2.50, $5.00, and $10.00 Indians. A little more challenging, because there are 144 different issues, are the Classic Silver Commemoratives. Once I finish these series, then I'll go on to other categories.

Best Values in U.S. Type Gold Coins Today

	Undervaluation Index™			
Date	*MS-62*	*MS-63*	*MS-64*	*MS-65*
$1.00 Type 1	**651.79**	**482.09**	**376.00**	246.62
$1.00 Type 2	237.06	132.27	not enough data	
$1,00 Type 3	**399.30**	**240.71**	**303.59**	51.89
$2.50 Liberty	**50.77**	**49.29**	**72.99**	47.71
$2.50 Indian	**22.39**	**29.72**	**43.33**	43.29
$3.00 Indian	26.19	32.23	37.15	not enough data
$5.00 Liberty	**75.76**	**44.35**	**55.48**	77.05
$5.00 Indian	15.22	18.35	40.68	36.56
$10.00 Liberty	**28.27**	**34.05**	**59.37**	49.61
$10.00 Indian	6.20	15.50	35.28	36.19
$20.00 Liberty	2.39	5.18	13.44	21.62
$20.00 St Gaudens	0.85	1.21	1.90	3.41

Coins with an Undervaluation Index of 6.00-9.99 are recommended. Coins with an Undervaluation Index of 10.00-19.99 merit a high recommendation. Coins with an Undervaluation Index of 20.00 or higher are given the highest recommendation for potential future appreciation. Coins with an Undervaluation Index of 20 or higher and currently priced for no more than $2,000 are highlighted in **bold** above. See detailed discussion in this newsletter and in the February 2007 issue of *Liberty's* Outlook for explanation of the Undervaluation Index and its limitations.

Some Numismatic Areas Are Hot, Some Are Not

As is typical in any diverse kind of collectible, not everything rises or falls at the same time or to the same degree. Although many U.S. coins have been rising for the past few years, there are some coins of foreign nations that have been strong.

Enough Russians, including those who have emigrated, are prosperous enough that the market for Russian coins has soared. Even what were considered to be extremely common **Russian Gold 5 Roubles** issued in the early 1900s are not longer trading so close to bullion value. This strong demand has also spilled over to coins from Finland, Latvia, Estonia, and Lithuania.

Rising prosperity in China has also helped develop a strong collector market in that nation. A couple years ago, I reported that some companies were chasing China Mint issues struck over the past two decades that were sold in the U.S. so that the coins could be shipped back to China. That continues today.

On the other hand, some parts of the market aren't strong right now. The cable television sales channels have not been selling so much of the rare coins as they have in years past. As a result, such commonly available items such as modern U.S. proof and mint sets, and some issues of widely available **Small-Size U.S. Paper Money** have been falling in price.

Areas where demand has picked up in the past couple months are Mint State-60 Common Date Morgan and Peace Dollars, and Sacagawea Dollars. With the debut of the U.S. Presidents Dollars, I ex-

(Continued on page 4)

(Continued from page 3)
pect a significant increase in collector demand for earlier dollars.

As always, coins that are high-end for the grade are popular. In many instances, you can acquire these coins at or close to the same price you would pay for average quality specimens. LCS Retail Store Manager Bob Sweet has been successful satisfying customers with the coins he uncovers. See our **Sweet Deals #3** offering for more lovely coins.

Gold and Gold Coins

Gold closed today at $650.50, down just $2.00 (0.3%) from four weeks ago despite a roller coaster ride during the month.

As prices were rising, demand for physical gold dipped and more liquidation happened. After prices dropped starting February 27, the liquidation almost completely stopped. Then, when prices began to rebound this week, buying started to pick up.

There is some suspicion that the largest gold exchange traded fund, sponsored by the World Gold Council, may not own all of the physical gold that its investors believe. The fund, which now has a value of more than $10 billion, discloses in its prospectus that it may own paper promises of future delivery in place of having custody of physical gold, so technically there is no chicanery afoot. However, if this fund does have a significant percentage of its gold holdings in paper contracts and tries to secure delivery, that could bring about a supply squeeze and cause the price of gold to skyrocket.

The premium for U.S. **American Eagles** (5.0%) has dipped in the past month. Since the price of gold jumped over $500 over a year ago, demand for Eagles has been falling. A number of former date collectors of the series have stopped. Now that the 2007 **American Buffalo** (5.6%) has been released, expect demand to fall even further, along with the possibility that the premium will fall further.

The Month™

Gold Range	49.25	7.5%
Net Change	-2.00	
Silver Range	2.03	14.9%
Net Change	-.67	
Gold/Silver Ratio		50.0
Net change		+2.2
Platinum Range	67.00	5.6%
Net Change	- 7.00	
Platinum/Gold Ratio	1.84	

Date	Gold	Silver	Platinum
Feb 07	652.50	13.67	1,186.00
Feb 08	658.00	13.72	1,187.00
Feb 09	667.50	13.87	1,190.00
Feb 12	662.50	13.65	1,188.00
Feb 13	663.75	13.88	1,193.00
Feb 14	667.50	13.93	1,204.00
Feb 15	667.75	13.94	1,204.00
Feb 16	668.50	13.97	1,198.00
Feb 19	670.00	14.01	1,209.00
Feb 20	657.00	13.81	1,202.00
Feb 21	679.50	14.25	1,220.00
Feb 22	679.00	14.23	1,222.00
Feb 23	682.50	14.56	1,228.00
Feb 26	686.25	14.67	1,227.00
Feb 27	676.75	14.37	1,234.00
Feb 28	669.00	14.10	1,237.00
Mar 01	662.50	13.53	1,237.00
Mar 02	641.50	12.85	1,201.00
Mar 05	637.00	12.64	1.170.00
Mar 06	644.00	12.88	1,185.00
Mar 07	650.50	13.00	1,179.00

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

Gold, silver and platinum quotes are working spots at 1:45 EST/EDT each day, quoted in U.S. dollars per troy ounce.

The best low premium forms of gold to purchase remain the Austria **100 Corona** (2.9%), South Africa **Krugerrand** (2.9%), U.S. **American Arts Medallion** (3.0%), and Mexico **50 Peso** (3.0%). All of these forms are out of production.

Demand for **Common Date U.S. Gold Coins** remains active, with several prices higher in the past month despite the drop in spot gold price. A number of coins are available today at a fraction of their June 1989 price levels. In MS-63 and MS-64 quality, I really like the $1.00 Liberty Type 1, $1.00 Indian Type 3, $2.50 Liberty, $5.00 Liberty, and $10.00 Liberty.

Even more attractive are **Better Date U.S. Gold Coins,** especially the ones that can be acquired closer to the price of Common Date Gold Coins than their relative rarity would lead you to expect. Last month's offer of **Better Date $20.00 St Gaudens** was a real hit with our customers, where we were able to offer a variety of coins with a high Undervaluation Index™. This month, we offer some other equally desirable Saints. Please see our enclosed offer.

Silver and Silver Coins

Silver finished today at 13.00, a decline of 67 cents (4.9%) from last month.

The pattern of the physical silver market was much like that for gold. So much silver was being liquidated in mid-February that the premium on U.S. **90% Silver Coin** (0.3%) disappeared. Even as the silver price fell, demand did not increase enough to push the premium up much.

Premiums also fell on other forms of physical silver such as U.S. **40% Silver Coin** (0.1%) and **100-1 Ounce Ingots** (2.3-3.2%).

As I noted earlier, collector demand for **Mint State-60 Common Date Morgan and Peace Dollars** is so strong that it will likely push up the prices of higher quality coins.

Demand is also solid for **Better-Date Morgan and Peace Silver Dollars**, especially those that we identified as having better appreciation prospects. This month we offer a modest group of **Mint State-62 and –63 1879-S Reverse of 1878 Morgan Dollars** that, except for a 3,000 piece hoard that came on the market 30 years ago, are extremely scarce. They are still rare and much sought by collectors today.

A number of **U.S. Classic Silver Commemoratives** are available today at a fraction of their peak prices. The problem is locating nice coins. This month, we offer a modest group of **Superb Gem Mint State-66 Iowa Half Dollars,** a perfect example.

Liberty's Outlook is published monthly by Liberty Coin Service, 300 Frandor Ave., Lansing, MI 48912. Telephone: National 800/527-2375 Fax: 517/351-3466 Website: www.libertycoinservice.com, E-mail: path@libertycoinservice.com Patrick A. Heller, Editor. Subscriptions are available at $79.00 per year (12 issues). Send subscription orders and changes of address to the above address. All information is derived from sources believed to be reliable, but accuracy cannot be guaranteed. No guarantee of profitability of any investment or recommendation contained herein is made or implied. Liberty Coin Service has been a dealer in rare coins and precious metals since 1971. The publisher, its principals and associates may, from time to time, have a position in items recommended here.