Liberty's Outlook

Volume 14 Issue 3 Liberty Coin Service's Monthly Review of Precious Metals and Numismatics March 12, 2008

Desperate Moves By The Federal Reserve And Other Central Banks Force Investors To Ask—

- **Are We On The Brink Of Imminent Soaring Inflation?**
- **Is The U.S. Dollar At A Risk Of Collapse?**
- **Does The World Economy Face Worst Depression Since 1930s?**

Last month, when the spot price of gold was $900.75 and silver was $16.51, I stuck my neck out and forecast that gold would reach $1,000 and silver $20.00 by March 10.

Well, I got it just about right. Silver topped $20.00 on the March 3. Gold almost made it, closing at $986.25 on March 5. Even though gold didn't reach $1,000 by March 10, those who bought gold at much lower levels aren't complaining.

Actually, gold "should have" soared well above $1,000 if not for the ever more blatant steps taken by the Federal Reserve, other central banks, and their trading partners, to keep gold from topping that psychological threshold.

Platinum, silver, and palladium are all up more than 30% thus far this year while gold has risen barely half as much. For gold to have kept pace with the other metals, its price would now be around $1,100.

This rise in precious metals is occurring even though the world's stock market indices are falling. *The Wall Street Journal* reports on 30 international stock indices every day. All are down since the start of 2008, most by more than 10%. Of the American stock indices reported, the only two that are up this year are those for oil and for gold and silver.

In effect, if you owned the Dow Jones Industrial Average, it has lost 25% of its value against gold over the past 10 weeks and over 40% of its value against silver since the start of the year.

With this kind of track record, you can see why more new customers contact us every day expressing their desire to redeploy some of their investment funds out of paper assets into precious metals.

Even though LCS is enjoying a much higher volume of activity so far in 2008 (we are currently experiencing more than double last year's sales rate), in my judgment we are still in the early days of the next major boom in gold and silver.

There are two general reasons why I think that the greatest increase in gold and silver prices has yet to happen.

1) Most investors (and so-called investment experts) simply don't understand what has really happened in the gold market. Some investment "experts" are suggesting that gold is due to fall in price because it has run up so much in the past several years, either because they genuinely think this or because their company is a partner with the central banks who are trying to drive down gold prices.

A perfect example is a column in the Money section of the March 7 issue of *USA Today*. Under the title of "All that glitters is not always a golden opportunity," John Waggoner gives some correct information on what has happened in the gold market and admits that there are several reasons why gold may be a good long-term investment.

However, Waggoner's column contains several factual errors or omissions. He also quotes the director of research for a fund company who thinks that gold has risen too far too quickly and is overdue for a correction in the near future.

In Waggoner's discussion about gold supply, he completely misses the additional gold supplied surreptitiously (and not included in any official reported statistics) by central banks totaling as much as 50 million ounces annually for the past decade or so. These central banks are running out of gold to supply, so we are facing a major drop in sources of gold in the future, while demand continues to rise.

Waggoner also omits the information that gold is rising against every one of the world's currencies, and not just against the U.S. dollar.

The author concludes by recommending that investors hold no more than 5% of their portfolio in gold and that, as gold rises and the value of the paper assets drops, they should sell gold to avoid having it represent more than 5% of their portfolio.

Investors are being inundated with articles such as this that are warning them away from investing in precious metals. I don't think we will be anywhere near a top in the market until at least 80% of investment writers become bullish on gold (currently, only about 50% are gold

2008 Year To Date Results

Through March 11, 2008

Precious Metals	
Platinum	+33.4%
Silver	+32.6%
Palladium	+32.1%
Gold	+16.4%
Numismatics	
MS-63 $20.00 Liberty	+18.3%
MS-65 Morgan Dollar	+10.3%
MS-63 $20.00 St Gaudens	+6.4%
US Dollar vs Foreign Currencies	
India Rupee	+2.3%
Canada Dollar	+1.3%
Great Britain Pound	-0.4%
China Yuan	-2.6%
Euro	-3.8%
Brazil Real	-4.8%
Japan Yen	-7.9%
Switzerland Franc	-8.2%
U.S. Dollar Index 73.179	-4.58%
US and World Stock Market Indices	
Dow Jones Ind Average	-8.4%
S&P 500	-10.0%
London FT 100	-11.9%
Russell 2000	-12.0%
NASDAQ	-15.0%
Tokyo Nikkei 225	-17.3%
Frankfurt Xetra DAX	-19.1%
Intrinsic Metal Value Of U.S. Coins	
Lincoln Cent 1959-1982	2.57¢
Lincoln Cent 1982-date	0.68¢
Jefferson Nickel-non-silver	7.23¢
Roosevelt Dime 1965-date	3.28¢
Wash Quarter 1965-date	8.20¢
Kenn Half Doll 1971-date	16.39¢

Inside this issue:

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bulls).

2) The reasons why precious metals have been rising over the past several years are still valid reasons for it to continue rising in the future. In other words, the economic and political problems pushing up gold and silver prices have not been resolved or fixed. If anything, it looks worse now.

a) The federal budget deficits and the U.S. trade deficits are still gargantuan and not really getting smaller. The recently resigned Controller of the United States, David M. Walker, judges that, under correct actuarial accounting, the federal government is currently operating at a $4 trillion annual deficit. In other words, that federal government is spending more than double its income!

Walker calculates the cumulative government liabilities to now be about $60 trillion. (Incidentally, the reason he recently resigned from his government job was to work for a non-profit organization trying to rescue the U.S. government from its financial mismanagement and looming financial collapse.)

b) The risks and costs of terrorism and war seem to be increasing every year, not decreasing.

c) As the developing world is becoming wealthier, demand for material goods is rising as fast or faster than production is increasing. Demand for commodities is soaring off the charts. Just look at the table at the top right of this page on how prices have changed just in the past 10 weeks for a number of items.

There is now about $4 trillion of U.S. government and commercial debt held by foreigners. Simply to finance current operating deficits, the federal government must borrow an average of $2 billion dollars from foreigners every single day! Foreign governments and investors are becoming increasingly uneasy at holding so much paper. A number of central banks have openly acknowledged that they have changed their foreign exchange policies to reduce or eliminate U.S. dollars in their holdings. There are rumors that many other central banks have been trying to do this without the public being aware of their actions. This trend away from holding U.S. dollars is accelerating, not stabilizing or decreasing, and is a major reason that the U.S. dollar is at risk of falling in value against other world currencies.

d) Then there is the federal government's inflation of the money supply.

Through ill-advised economic policies, the federal government has spurred distortions in the U.S. economy that have now become major problems: the sub-prime mortgage meltdown that has now affected the prime mortgage market, municipal bonds, commercial paper, automotive loans, home equity loans, and more.

e) Mortgage foreclosures and bankruptcies are soaring, which is causing a domino effect straining the financial strength of other businesses and individuals. Those who do have assets they could loan are becoming less willing to roll over loans because of heightened fears of the risk of losing their principal.

f) Since the beginning of 2008, the cost of purchasing insurance to protect against the risk of default on debt has more than doubled. Interest rates are rising, even as the Federal Reserve had made major cuts in its benchmark interest rates.

g) Even high credit-rated would-be home buyers are being turned down for mortgages because their down payment is not high enough to cover the possible future decline in the value of the property!

h) In this week's report from the Mortgage Bankers Association, the average interest rates charged on various home mortgages soared from last week's levels—30 year mortgage interest rates rose 6.5%, 15 year mortgage rates were up 8.7%, and adjustable mortgage rates climbed 15.3%!

i) The Federal Reserve, often in conjunction with other central banks (the most frequent cronies are the European Central Bank, Bank of England, Bank of Canada, and the Swiss national Bank) has been pulling every trick in the book since last August trying to sustain the Dow Jones Industrial Average. In the process the value of the dollar has tanked to its all-time low against a basket of major world currencies—and the decline has been accelerating in the past couple of weeks.

j) Last week, Thornburg Mortgage and the Carlyle Capital both failed to make payments for margin calls, leading Merrill Lynch to issue a report last Friday predicting that the financial system is in a "systemic margin call." This means that one debtor's failure to make payment on a margin call would put the creditor into a bad enough position that it gets a margin call that it cannot pay, and the dominoes keep falling. Merrill Lynch predicted that financial institutions will lose $325 billion of capital from this point forward. Some major brokerage firms are even considering the possibility that the world's economy is at the brink of the worst depression since the 1930s.

k) Another move of desperation appeared in mid-February when the International Monetary Fund (IMF) announced that it was looking at selling some of its gold reserves in order to cover the organization's deficits. The announcement came at a time to stop one rally in the gold price. Early the following week, top U.S. officials announced that the U.S. government would support the IMF gold sale, even though Congress is the body that has to approve the sale. These announcements temporarily halted another gold rally. Supposedly, as much as 12.9 million ounces of gold was going to be sold to create an endowment fund for the IMF to cover future operating deficits.

Several threatened IMF gold sales in the past decade have never happened. Yesterday, John Lipsky, the number 2 official at the IMF, revealed that the threatened IMF gold sale will be a complete non-factor. If the IMF sells any gold, it will be within the existing central bank gold sales agreement that limits annual sales to 16.1 million ounces among all signatories. What that means is that if the IMF sells any gold, other central banks will reduce their gold sales by a matching amount.

l) Today, in commodities trading, I received reports that the tactic of selling gold and silver contracts to bidders who were offering lower prices than other bidders was being practiced on a massive scale never before seen. Since these are actual sales, they are reported, misleading those who don't know into thinking that prices are lower than they really are.

m) Yesterday, Moody's Investor Services and Standard & Poor's admitted that they have not cut the ratings of some of the highest rated debt held by the banks and insurance companies. For instance, the ABX index tracks sub-prime bonds. There are 80 securities in this index that are rated AAA by both rating services. Yet both Moody's and S&P acknowledge that none one of the 80 securities meets the required criteria to keep the AAA rating. One AAA-rated bond issued by Deutsche Bank in 2006, for instance, currently has 43% of its underlying mortgages in delinquency.

n) If you did not read last month's newsletters where I detailed a number of ways that central banks try to manipulate prices and markets, please review it at our website (www.libertycoinservice.com) or call or write for a complimentary copy. My list details almost exactly what the Federal Reserve has been doing in 2008.

What is scaring me is that these market manipulations are becoming more frequent, larger in size, and more blatant.

Just last Friday, the Federal Reserve announced that it was injecting $200 billion of liquidity (meaning an increase in the money supply) into the financial system by two different means. That massive amount of funds should have had some effect.

It turned out to be so ineffective that the Fed-

2008 Year To Date Results

Through March 11, 2008

Other Commodities

Flour, hard winter KC	+43.2%
Wheat, hard KC	+42.3%
Corn oil, crude wet/dry mill	+39.5%
Hominy feed, Cent IL	+35.0%
Natural gas, Henry Hub	+31.6%
Copper	+28.2%
Cocoa, Ivory Coast	+28.0%
Aluminum	+26.6%
Oats, @2 milling, Minpls	+26.2%
Corn, No 2 yellow	+25.5%
Nickel	+24.6%
Sugar, cane, raw, world	+15.2%
Soybeans #1 yellow IL	+14.9%
Sorghum (Milo) No.2 Gulf	+14.4%
Zinc	+12.2%
Crude Oil, Brent	+11.8%
Coffee, Columbian NY	+11.5%
Butter, AA Chicago	+6.4%
Gasoline, conv reg NY	+5.3%
Broilers, dressed "A"	+3.7%
Hogs, Sioux Falls	+2.9%
Eggs, large white Chicago	+1.4%
Beef, choice	-1.7%
Cheddar Cheese, bulk Chi	-13.2%

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eral Reserve (in coordination with the European, Canadian, and Swiss national banks) were forced to inject another $200 billion yesterday. The Fed announced that they would even accept low quality debt at full face value as collateral for the cash they were adding to the market place.

These liquidity injections come on top of significant interest rate reductions by the Federal Reserve twice this year and before another anticipated large drop at next week's meeting of the Federal Reserve Open Market Committee.

Conclusion) With the Federal Reserve being forced to allocate so many resources into propping up the U.S. stock and bond markets, which I think comes to more than $1 trillion in the past seven months if you include the support from other central banks, and now having to do so every couple of days, I am worried that we are right on the brink of a triple disaster of soaring inflation, a major decline in the value of the U.S. dollar (if not an outright collapse) and other currencies, and the worst global depression ever.

I don't like saying this because if it comes to pass that will mean a lot of misery everywhere. Unfortunately, I think the federal government has intervened in the markets for so long and so much that is has little prospect of getting out of the downward spiral. Any possible last minute miracle would require the courage to take painful measures that I just don't see any in any politician in office.

I reiterate my previous recommendation that a minimum of 20% of your net worth be held in the form of hard assets such as precious metals and rare coins. Because of my ownership of Liberty Coin Service, a much higher percentage of my net worth is tied up in hard assets—and I am seriously thinking about increasing it even more.

UBS, a Swiss bank, recently unloaded $24 billion of lower quality bonds at what were described as "fire sale" prices. However, several analysts considered the move to be prudent as there is a significant chance that these bonds would be worth even less in months to come. Maybe everyone should be looking to unload more of their paper assets, especially those denominated in U.S. dollars, and replace them with gold and silver.

At the worst, we could see gold jumping by $50 per ounce and silver by $2-3 a day real soon, maybe even this month. At the most optimistic, I think it may take two years for the price of gold to reach $2,000 and silver to hit $50.

We are ready to assist you with any transactions and look forward to hearing from you.

Does Purchasing Rare Coins Make Sense When Bullion Prices Rise Rapidly?

The concept for potential rare coin appreciation is related to, but different, than the concept for owning bullion precious metals. The distinction makes a significant difference on whether someone should own any rare coins as part of their "hard asset" position.

Rare coins have greater risk and less liquidity. On the other side, many rare coins have the potential to outperform precious metals. From 1989 to 2006, for instance, the value of low-grade circulated 1895-O Morgan Silver Dollars increased 1,000%. Even allowing for the greater buy/sell spread on rare coins, someone who bought these coins in 1989 made much more than double the profit of someone who bought silver bullion. A few weeks ago, a collector sold his collection of U.S. copper coinage for more than $10 million, at a profit that dwarfs what he could have made trading precious metals.

In markets where bullion prices are rising quickly, the questions about purchasing rare coins become even more important.

When you purchase bullion precious metals, profits come strictly from increases in the spot price of the metals. You lose money if prices do not rise or actually decline. Gold, silver, platinum, and palladium do not necessarily rise or fall in tandem. Even when the do move in the same direction, which is most of the time, they don't move by the same percentage.

In general, silver is more volatile than gold because it is a far smaller market. When the silver price rises, it tends increase more sharply than gold; when it falls, it normally falls by a greater percentage than gold.

Rare coins (and I am including paper money under this term) rise and fall in value because of changes in collector supply and demand. For coins that have significant gold or silver content affecting their value, prices can go up or down as the intrinsic metal value changes.

Rare coins also involve more work in evaluation than does bullion precious metals. With rare coins, condition affects value, which requires more education and calls for much closer scrutiny of each coin than would be necessary for bullion. Also, collectors often focus on a particular quality or price range for rare coins, meaning that a particular coin in Very Fine condition might only suit some collectors where others would want Gem Mint State-65 specimens.

Putting all these factors together, rare coins are less liquid than bullion precious metals. Because of the extra work for evaluation of each coin and the longer time it takes to find a buyer, the buy/sell spreads for rare coins are wider than they are for bullion coins and ingots.

For example, LCS is currently paying 92% of our selling price to buy back U.S. 90% Silver Coin $1,000 face value bags that we have sold (we pay 90% of our selling price for 90% bags purchased elsewhere). For a single U.S. 1 Oz gold American Eagle, we are paying about 92% of our selling price (larger quantities have tighter spreads).

About the closest spread between buy and sell prices on any rare coins is 12%. For common-date MS-64 $20.00 St Gaudens, we are typically paying 85% of our current selling price. For less common coins, we may pay 80% of our current selling price. There are some even more rare items where we would pay 75% of our current retail selling price. Then there are coins of small unit value where handling labor becomes significant and we pay less than 50% of our current selling price.

With wider buy/sell spreads, normally it does not make sense to acquire rare coins for the short term. Generally, we recommend that purchasers plan to hold them at least 3-5 years in order to realize a payoff.

Even with the potential for greater appreciation, the higher risk and longer time frame may make rare coins a poor choice for some would-be owners of "hard assets." That is perfectly alright.

Unfortunately, because rare coins generate a greater profit margin than bullion for coin dealers, there are several companies that use sales practices to steer customers to rare coins who would be better suited buying bullion. Some of these companies even try to persuade such customers that they are buying bullion when they buy rare coins. The worst even take bullion coins and market them as rare coins with accompanying extra high prices.

While the rare coin market is generally strong when precious metals are also rising, they do not appreciate in the same degree. Let me give you a couple examples.

In the past five weeks, the price of silver and of Very Good or better Common-Date Morgan and Peace Silver Dollars are both up about 21-22%. On the other hand, while the price of gold is up about 9%, the price of Common-Date MS-63 $20.00 St Gaudens has actually dropped almost 4%.

Frequently, when precious metals prices are rising rapidly, rare coins lag in appreciation, especially among coins that have significant metal value in relation to their total value. That has happened with many U.S. gold coins. Two years ago, Extremely Fine $5.00 Liberties were selling for about 35% above gold value. Today you can buy these coins for about 12% over their intrinsic value. A number of scarcer mintage U.S. Silver Coin rolls have not appreciated or have not kept pace with higher silver prices.

Often, when precious metals prices stabilize, you then see the rare coin markets continue to appreciate.

As a result, coins that collectors may have purchased in the past couple of years may well have underperformed relative to bullion prices. The difference would be magnified by the greater buy/sell spreads.

If you are thinking of selling in the current market, where precious metals prices are rising quickly, then you probably would get the best results from having owned bullion precious metals.

From now into the future, that will not necessarily continue to be true. Even if precious metals prices continue to increase significantly, rare coins could start to make up lost

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ground. This has happened a number of times in the past, but there is no guarantee that it will happen again in the next couple of years.

I don't have a crystal ball to say if now would be a better time to be buying rare coins than in the past couple of years. Everyone needs to make their own judgment. Many people who buy bullion precious metals should not buy rare coins.

But, with the information I have included here, those who do purchase rare coins will be able to make better choices on more complete background information.

New York Governor Spitzer Runs Afoul Of Currency Reporting Regulations

This week, New York governor Eliot Spitzer has been accused of breaking laws in using the services of a prostitute. The information for these charges was derived from telephone wiretaps by the Federal Bureau of Investigation (FBI). Today, Spitzer announced that he will resign on March 17.

As best I can glean from the reports, Spitzer's activities came to light as a result of his effort to avoid federal cash reporting transactions.

When Spitzer went to a bank to arrange for an electronic wire transfer of more than $10,000 to pay for the alleged illegal services, the bank told him that they were required to submit a report to the Internal Revenue Service (IRS) because the amount exceeded the $10,000 reporting threshold. Spitzer decided to not send this payment.

Later, Spitzer came in on multiple occasions to send electronic wire transfers of amounts less than $10,000 that totaled more than $10,000 to the same payee. Still later, apparently, Spitzer contacted the bank to request that his name not be associated with these wire transfers.

Upon receiving such requests, the bank complied with Federal regulations where they were required to file Suspicious Activity Reports (SAR) with the IRS for transactions less than $10,000.

What Spitzer apparently did not know is that the IRS gets so many reports of cash transactions above $10,000 that there is very little attention paid to them.

How little? A perfect example came to light during the espionage trial of Central Intelligence Agency veteran Aldrich Ames. Ames was paid by his Soviet handlers by bank wires, where the Soviets filed reports of such payments to the IRS. The federal government never detected these payments until after Ames was arrested and revealed the method by which he was paid!

On the other hand, the filing of a Suspicious Activity Report is treated almost like a report of a felony in process. The SAR gets immediate attention and investigation.

If Spitzer had sent his original wire transfer of more than $10,000, it is quite likely that his activities would never have drawn attention of the authorities or become public knowledge, and he might have continued to serve as governor.

The Month

Gold Range	85.50	9.5%
Net Change	+78.00	
Silver Range	4.18	25.3%
Net Change	+$3.40	
Gold/Silver Ratio	49.2	
Net change	-5.4	
Platinum Range	425.00	23.6%
Net Change	+232.00	
Platinum/Gold Ratio	2.08	

Date	Gold	Silver	Platinum
Feb 06	900.75	16.51	1,800.00
Feb 07	906.75	16.74	1,832.00
Feb 08	918.50	17.09	1,865.00
Feb 11	923.00	17.43	1,927.00
Feb 12	907.25	17.21	1,904.00
Feb 13	906.50	17.31	1,966.00
Feb 14	907.50	17.23	1,998.00
Feb 15	902.75	17.19	2,066.00
Feb 18	905.00	17.08	2,080.00
Feb 19	926.50	17.49	2,140.00
Feb 20	933.75	17.74	2,120.00
Feb 21	946.00	17.92	2,151.00
Feb 22	944.50	18.00	2,141.00
Feb 25	937.50	18.08	2,122.00
Feb 26	946.00	18.71	2,129.00
Feb 27	958.25	19.20	2,114.00
Feb 28	964.50	19.64	2,125.00
Feb 29	972.00	19.80	2,141.00
Mar 03	981.50	20.10	2,196.00
Mar 04	964.00	19.74	2,216.00
Mar 05	986.25	20.69	2,225.00
Mar 06	975.00	20.13	2,156.00
Mar 07	972.00	20.15	2,004.00
Mar 10	970.00	19.70	2,001.00
Mar 11	972.25	19.63	2,015.00
Mar 12	978.75	19.91	2,032.00

London Silver Market Premium To New York Silver Market = 6¢

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

Gold and Gold Coins

Gold closed today at $978.75, up a huge $78.00 (8.7%) from five weeks ago.

We have been buying extraordinary amounts of gold coins, ingots, and jewelry from customers. But we also have been selling huge quantities of bullion-priced gold coins and ingots to existing and new customers.

With strong demand offsetting liquidation there is little change in premiums from last month. The low premium favorites continue to be the Austria **100 Corona** (2.9%), South Africa **Krugerrand** (3.3%), U.S. **American Arts Medallion** (3.0%), and Mexico **50 Peso** (3.0%).

There has been some fall-off in demand for the more common U.S. Classic Gold Coins such as Double Eagles. Even with higher gold prices, the MS-63 $20.00 St Gaudens actually fell in price by $50 since last month! Many less common types have increased in price in high quality, with several rising more than the change in the gold value.

Attractive, solid quality **Better-Date U.S. Gold Coins** are few and far between, and sell quickly when available. We have a modest variety of **Better-Date Mint State $20.00 Saint Gaudens** for your consideration. Please see our enclosure.

Silver and Silver Coins

Silver closed today at $19.91, an amazing jump of $3.40 (20.6%) from last month.

As with gold, we have bought and sold huge quantities of silver in the past five weeks. Demand has kept premium levels from sliding much. In fact, there are so many buyers of the **100 Oz Ingots** (2.4%) that deliveries are getting tight and premiums may actually rise.

There is a good possibility that as many as two holders of the eight major short silver positions on the Comex may be buying back their positions, as there is a significant increase in buying every time the price drops slightly. Just about the only short sellers of silver right now are speculators who think that $20 is a market top. Demand from others is so strong that even the premium of the London silver price over New York has started to rise.

The best deal for physical silver remains U.S. **90% Silver** Coin (-0.5%). You can actually buy bags now below silver value.

With some good fortune, we were able to find two different lots of **Mint State Morgan Dollars from 1878,** the first year of issue. These are extra popular with collectors, yet surprisingly affordable for their rarity. See our flyer.

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