Liberty's Outlook

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Gold And Silver Set New Record Highs!

Morgan And Peace Dollars: Demand Soars, Supplies Disappear, Prices Rising!

Despite attempts by a handful of analysts to claim that supplies are plentiful, the physical silver market is experiencing a growing supply squeeze. Here are some tidbits to consider.

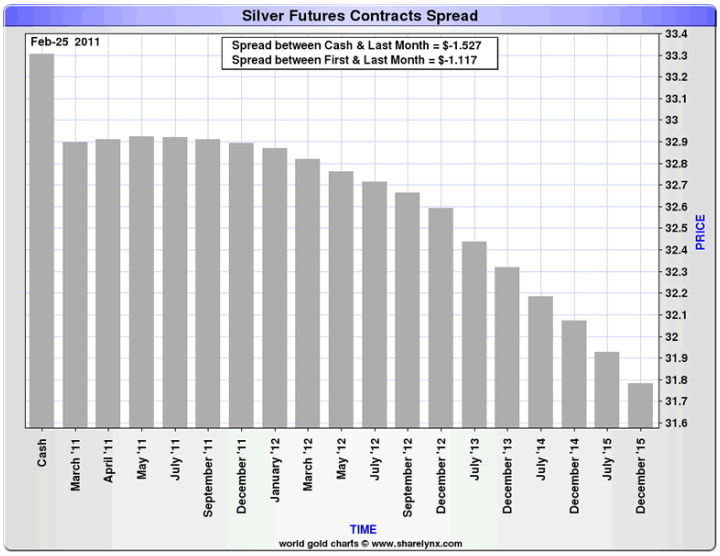
- In mid-February, the Perth Mint announced that newly received orders for silver bars would not be fabricated until April.
- In a February 24 interview, David Madge, the sales director for the Royal Canadian Mint (RCM), stated that the RCM was having difficulty locating physical silver and anticipated that the problem would get worse in the near future. The supply problem is affecting them even though the RCM has long term contracts to obtain silver.
- The US Mint sold another 3.24 million Silver Eagle Dollars in February—the most ever in the month of February, raising the annual sales to almost 10 million coins. However, the US Mint is severely restricting the acceptance of new orders. While the reason is not stated, I suspect the problem is lack of silver supply as the Mint has the staff and equipment to produce far more coins than they are now striking.
- The British Royal Mint reports that they are striking twice as many gold and silver coins as they have ever struck before.
- A tip from one of my most reliable sources says that there are Far East buyers who are so frustrated at the difficulty in locating physical silver to purchase that they are purchasing large quantities of shares of the SLV silver exchange traded fund. Their plan is to redeem the shares for the underlying physical silver.
- I have received multiple reports that refiners are refusing to accept new orders for refined silver as they are having difficulty obtaining enough material to process.

With reports like these, it is no surprise that the price of silver is up sharply in the past few weeks, settling today at $34.81, its highest price

2011 Year To Date Results

Through March 1, 2011

Precious Metals		
Silver		+11.4%
Platinum		+3.8%
Palladium		+1.7%
Gold		+0.7%
Numismatics		
US MS-65 Morgan Dollar, Pre-1921		+26.0%
US MS-63 $20 St Gaudens		-2.7%
US MS-63 $20 Liberty		-3.0%
US Dollar vs Foreign Currencies		
South Africa Rand		+5.5%
New Zealand Dollar		+4.2%
Japan Yen		+0.9%
Australia Dollar		+0.8%
South Korea Won		+0.5%
India Rupee		+0.4%
Brazil Real		+0.3%
Hong Kong Dollar		+0.2%
China Yuan		-0.3%
Switzerland Franc		-0.5%
Singapore Dollar		-0.8%
Mexico Peso		-1.8%
Canada Dollar		-2.3%
Euro		-2.9%
Great Britain Pound		-4.1%
U.S. Dollar Index	77.04	-2.52%
US And World Stock Market Indices		
Frankfurt Xetra DAX		+4.5%
Dow Jones Industrial Avg		+4.2%
Nikkei 225		+4.0%
Shanghai Composite		+4.0%
S&P 500		+3.9%
NASDAQ		+3.2%
Dow Jones World (excluding US)		+3.2%
Russell 2000		+3.0%
Australia S&P/ASX 200		+1.7%
London FT 100		+0.6%
Sao Paulo Bovespa		-4.4%
10 Year US Treasury Note interest rate	3.416%	+3.6%
Intrinsic Metal Value Of U.S. Coins		
Lincoln cent 1959-1982		2.97¢
Lincoln cent 1982-date		0.67¢
Jefferson nickel non-silver		7.32¢
Roosevelt dime, 1965-date		3.33¢
Washington quarter, 1965-date		8.31¢
Kennedy half dollar, 1971-date		16.61¢



Inside this issue:

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(ignoring inflation) since early 1980.

The chart at the bottom right on page one showing the COMEX silver prices as of February 25 also points out the severity of the silver supply squeeze.

In normal commodity contract trading, future month prices are higher than the spot month by roughly the interest rate minus a small amount for storage costs. This condition is called contango. When the spot month price is higher than some or all future month prices, that is a sign of a shortage of the physical commodity, a condition called backwardation.

As you can see in the chart, the silver spot price is substantially above every future month contract on the COMEX—and by a large amount.

The easiest way to cure backwardation on a commodity exchange is for higher prices to bring supply and demand back into relative equilibrium.

However, the US government has a huge problem with soaring silver prices. Silver and gold prices generally move in the same direction. In the past few weeks, the surge in the price of silver has helped propel the price of gold to record high levels, again ignoring inflation.

The price of gold is a report card on the US government, the US dollar, and the US economy. When the price of gold is rising, that is a signal of developing trouble for the US government.

First, as investors fear that the US dollar will drop in value, they insist on receiving a higher interest rate on US Treasury debt to be willing to continue to hold the debt. It wouldn't take that much of a move for the US government to have to pay another 1/2-1 trillion dollars of interest payments annually on the growing pile of debt.

The US government is currently inflating the US money supply under a plan referred to as Quantitative Easing 2. It is over at the end of June. Already, two presidents of regional Federal Reserve Banks have issued statements advocating that a third round of quantitative easing begin later this year.

It is probably a safe interpretation that QE3 is a foregone conclusion and that a fourth round of quantitative easing is already under consideration.

The US government is caught in an impossible dilemma. In order to help prop up major banks, the stock markets, and the residential and commercial real estate markets, the US government has to keep increasing the money supply at low interest rates. Yet the very act of increasing the money supply will lead to higher interest rates.

Through the Federal Reserve, the US government has been trying to inflate the currency supply while holding down interest rates. The Federal Reserve now holds at least $1.2 trillion of US Treasury debt. It has surpassed the total amount of Treasury debt held by China to become the largest creditor of the US government.

This scheme will only work as long as the public does not realize that this sleight of hand is taking place. The public is starting to catch on, with the result that the US Dollar Index, a reflection of the value of the dollar compared to a market basket of major world currencies, it now all all-time low levels.

So, what can the US government do now?

How The US Government Suppresses Gold And Silver Prices

There are almost endless means by which the US government can suppress gold and silver prices.

It can make supplies appear to be greater than they really are. This can be done by surreptitiously utilizing gold reserves to dump onto the physical market. Or, gold could be leased to dump on the market, with no plans to close the lease. Another tactic would be to scare the management of mining companies into thinking that prices may fall in the future so that they are willing to pre-sell future production.

Apparent demand can be diminished by central banks refusing to reveal that they have added gold reserves. China's central bank did this for six years! This newsletter reported that it looked like the Chinese central bank was adding to gold reserves back in 2003. It was not until 2009 that most people found this out when China revealed that they had added reserves since 2003.

Inventories can be overstated such as when the International Monetary Fund used to require that two central banks that engaged in a gold lease were both required to report the leased gold as being in both vaults and part of reserves at the same time. Another gimmick was to pretend that the London market has 100% backing to its outstanding contracts, as the contracts technically require, yet have it turn out that the London vaults only have enough gold or silver to cover 1-3% of the contracts.

The government and its allies can also change the rules of trading precious metals. For example, the COMEX could raise margin requirements, even during times of falling prices (as happened in January).

Regulations can be changed. The Commodity Futures Trading Commission (CFTC) has proposed new regulations that, on the surface, seem to place limits on commodity price manipulation in the gold and silver markets. These proposed regulations are now going through their public comment period before going into effect.

The proposed regulations have lots of loopholes. Any short positions acquired before the regulations to into effect are exempt for the regulations. While the regulations do place limits on acquiring long positions in gold and silver contracts, short sellers have almost no limits on their ongoing activity. In effect, the new regulations will permit continued price suppression manipulation while putting limits on traders who might want to acquire positions that would push prices upward.

If all else fails, the government can always use statistics to lie. The government reports on inflation, unemployment, housing, etc. all paint a picture in the headlines that the economy is better than it really is. The fine print detailing the contradictory information tends to be ignored by the mainstream media.

In sum, even though gold and silver prices are pushing up to new record levels, they will not rise in a straight line. You will see periodic pullbacks, with at least some of them orchestrated behind the scenes.

As time goes on, these manipulations are having a smaller impact for a shorter time than they did in years past.

I'm Sticking To Last Month's Predictions

These developments simply reinforce my thoughts when I predicted in the last newsletter that the price of gold could reach $1,600 by the end of March and silver would get to $38-45. Actually, I think my silver prediction may now be too conservative. It is not impossible that silver might break the January 1980 record within the next few weeks.

Government Forces Dutch Pension Fund To Dump Gold Investment

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The Dutch government's pension regulator ordered the pension fund for glassmaking employees of O-I International to dispose of almost all of its gold holdings.

The pension fund had acquired the gold in 2008 when managers judged it to be less risky than paper assets. The gold price has risen so far since then that the gold had risen to 13% of the pension fund's portfolio.

Noting that the average Dutch pension fund only devoted 2.7% of its portfolio to commodities, the regulator ordered the pension fund to reduce its gold holdings to be only 1-3% of the total. The fund said it would comply.

Don't be surprised if the US government someday adopts a similar tactic.

Fed Releases Document Proving It Has Lied About Gold

For several years, the US government's official stance has been that it has not only never engaged in manipulating gold prices, it has also never even discussed the subject.

To comply with a court order from a Freedom of Information Act lawsuit filed by the Gold Anti-Trust Action Committee, Inc. (GATA), on February 18 the Fed turned over to GATA the minutes of a secret April 1997 meeting of the G-10 Gold and Foreign Exchange Committee.

This document was one of several that were sought by GATA to gain more information on the actions of the Fed that involve gold swap discussions and activities since 1990. The judge allowed the Fed to keep nine other documents secret.

One section of the minutes reported that a US delegate named "Fisher" (probably Peter R. Fisher who was then head of open market operations and foreign exchange trading for the Federal Reserve Bank of New York) stated that he, "explained that US gold belongs to the Treasury. However, the Treasury has issued gold certificates to the Reserve Banks, so gold (by these means) also appears on the Federal Reserve balance sheet."

About the risk of a rise in the price of gold, Fisher said, "So the net benefit to Treasury would need to be carefully calculated, since sales of government securities would expand the public portfolio of government securities and hence also expand the Treasury's debt-servicing burden." In essence, Fisher confirmed the US government's greatest reason to want to suppress gold prices.

The minutes of this meeting can be read at http://www.gata.org/files/FedMemoG-10Gold&FXCommittee-4-29-1997.pdf.

Once again, this new document confirms that the Fed has consistently lied in denying its discussions and activities about gold swaps.

Morgan And Peace Dollar Demand Soars, Prices Rise

Seventeen months ago, I anticipated a surge in demand for Morgan and Peace Silver Dollars. It has taken longer than expected, but these markets are flying right now.

Part of the support for increased demand is a result of higher silver prices. The premium at which lower grade common silver dollars are selling has come down, leading to a surge in demand for them.

In addition, over the past we months we have been experiencing a growing demand for higher grade Morgan and Peace Dollars. Right now, we are probably getting a phone call at least once a day from another dealer trying to purchase any coins they can find. This demand has also pushed up prices for a number of **Better Date Morgan and Peace Dollars** that are priced not that much higher than common-date issues.

The savvy customers who took advantage of our December 2010 offer of Choice Mint State-63 Early Morgan Dollars are already in a significant profit position. Prices are rising so quickly that the catalogs have fallen behind.

Most Morgan and Peace Dollar prices are still just a fraction of what they were at the last major market peak in June 1989. With significant inventory shortages on the market, I anticipate significantly higher prices in the coming months.

Rising prices have prompted us to make an offer this month of **Better Date Morgan Silver Dollars** even though we really would like to have more coins on hand before doing so. We've even had to raise the price on the MS-63 1887-O Morgan Dollars that we offered last month. See our enclosed offer for details.

Summary Of Current LCS Recommendations For Precious Metals and Rare Coins

How much of your total net worth should be in precious metals and rare coins?

Conservative	Moderate	Aggressive
10%	20%	25-33%

How much to allocate for each category of precious metals and rare coins?*

	Conservative	Moderate	Aggressive
Gold	40%	35%	25%
Silver	60%	55%	50%
Rare Coins	0%	10%	25%
TOTAL	100%	100%	100%

*Platinum and palladium both have volatile markets with long-term supply/demand fundamentals that are not as attractive as those for gold, silver or rare coins. While either or both might outperform gold, silver, or rare coins in the short- to long-term, to be conservative we have omitted them from our allocation.

US Dollar At High Risk Of Near Term Major Decline

As I mentioned earlier, the US Dollar Index is right around its lowest level ever. There has been a steady exodus of foreign governments, central banks, and investors getting out of US dollars and dollar-denominated investments.

Should the dollar fall just a little bit more, that could lead to a panic where sellers aggressively seek to dump their dollars.

There are two indicators that can give you a clue if the dollar is facing an imminent plunge. If the US Dollar Index falls below 77 and the interest rate on 10-year US Treasury debt climbs above 3.5% for three consecutive days, watch out below.

A falling US dollar value is one of the reasons I expect significantly higher gold and silver prices by the end of March.

Silver and Silver Coins

Silver closed on the COMEX today at $34.81, up a huge $4.54 (15.0%) in the last three weeks.

Even though silver has reached the highest prices in 31 years, there has been a fall-off in customer liquidation. At the same time, there has been a significant increase in the number of customers purchasing silver. One surprising development has been in the number of new customers coming in to make modest-sized purchases.

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We are nowhere near to the frenzy that occurred near the January 1980 peak, but activity is picking up.

About the only form of physical silver that you can obtain on an immediate basis is US **90% Silver Coin** (1.9%). Orders for all sizes of **Ingots** (4.0-4.3%), US **Silver Eagle Dollars** (9.3%), Canada **Silver Maple Leafs** (8.5%) are now looking at two to four weeks delivery. As each day and week passes, the delivery time is getting longer. I expect supply problems to get much worse before they get better.

As you might suspect in times of tight supply, the premiums are starting to rise. After this week's Silver Eagle Dollar sales included far fewer coins than the primary distributors expected, premiums rose about 50 cents per coin.

Another sign of tight supplies is that there is effectively now a two-tier silver price system. If you are looking to sell silver, the wholesale market is using the spot price. If you are looking to purchase, wholesalers are using a selling price of silver that is typically 5-10 cents higher than the spot price. Even a retail dealer who is using a single spot price (as does LCS currently) is setting his or her selling prices on the basis of the two-tier pricing structure on the wholesale market.,

I generally recommend US 90% Silver Coin as the best form of physical silver to acquire. It has several advantages—low premium, the greatest liquidity, and great divisibility. One silver dime has about 1/14th of an ounce of silver, so if you own 90% Coin you can divide your holdings into small units. When you own 100 Ounce Ingots you have to sell or swap all or nothing.

I also am attracted to the circulated **Peace Dollars** (17.2%) that can now be purchased for much closer to silver value than almost any time in the past three decades. I would not put a high percentage of total silver holdings into these coins, but they may outperform outright spot price changes.

There are other dealers who favor coins and ingots that have weights in even ounces. While such pieces can make it more convenient to calculate value, the higher cost per ounce to acquire these forms do not represent good value in my judgment.

Besides higher prices, silver is also experiencing greater volatility. There have been days where prices have swung by more than $1.00. There have been shifts of more than 50 cents in a matter of minutes. Expect even greater volatility in the coming months.

Several years ago when the gold/silver ratio was in the 70s and 80s, I made a long-term forecast that the ratio would eventually drop to around 35-40. A few other analysts whose research I respect did not expect the ratio to ever fall this low.

Well, today the ratio closed at 41.3. We are almost there.

The Month

Gold Range	77.25	5.7%
Net Change	+72.50	
Silver Range	4.82	15.0%
Net Change	+4.54	
Gold/Silver Ratio	41.3	
Net change	-3.8	
Platinum Range	82.00	4.4%
Net Change	- 0.00	
Platinum/Gold Ratio	1.29	

Date	Gold	Silver	Platinum
Feb 09	1,364.75	30.27	1,859.00
Feb 10	1,362.00	30.09	1,831.00
Feb 11	1,360.00	29.99	1,814.00
Feb 14	1,364.50	30.53	1,828.00
Feb 15	1,373.50	30.69	1,832.00
Feb 16	1,374.75	30.63	1,834.00
Feb 17	1,384.75	31.57	1,844.00
Feb 18	1,388.25	32.30	1,843.00
Feb 21	closed		
Feb 22	1,400.50	32.86	1,786.00
Feb 23	1,413.50	33.30	1,777.00
Feb 24	1,415.25	33.08	1,787.00
Feb 25	1,408.75	32.90	1,803.00
Feb 28	1,409.25	33.80	1,803.00
Mar 01	1,430.75	34.42	1,845.00
Mar 02	1,437.25	34.81	1,859.00

London Silver Market Premium To New York Silver Market = 7¢

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 settled today at $1,437.25, a strong increase of $72.50 (5.3%) from last month.

Unlike silver, there has been significant customer liquidation of gold in the past few weeks. Demand has not been as active as for silver. One result is that there are minimal problems obtaining issues other than the US **Buffalo** (8.3%) for quick delivery.

The US Mint released 2011-dated **American Eagles** (5.8%) early in January and has not had problems keeping up with demand. The fractional sized Eagles have not yet been released. We do not yet know when to expect them. Prior year issues are readily available.

My recommended choices for acquiring physical gold are the lowest premium choices: US **American Arts Medallions** (3.7%), the Austria **100 Coronas** (3.7%), and the Mexico **50 Pesos** (3.8%). These coins also have an advantage over ownership of South Africa **Krugerrands** (4.7%) and Canada **Maple Leafs** (4.5%) as the liquidation of 25 or more pieces of them will not require the buyer to submit Form 1099-B to the IRS to report the transaction.

Classic US Gold Coins have show some pluses and some minuses in the past month. Even coins that are up in the past few weeks are not back to the levels of three months ago. Double Eagles are up, mostly in response to higher spot prices.

This month we offer a modest group of **Cuba Gold Coins Struck At The Philadelphia Mint.** It used to be possible to find quantities of the most common of these coins. Not any longer. We are fortunate to offer at least one specimen of each of the six different denominations. But, if the recent experience of another dealer is any guide, they won't last long. Please see our offer for the list of available coins.

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 $139.00 per year (12 issues). Send subscription orders and changes of address to the above address. Weekly precious metals commentaries by Patrick A. Heller are available online at http://www.numismaster.com (click on "News & Articles" and search for "Heller") and http://www.coinupdate.com (click on "Patrick A. Heller" under the Authors list at the bottom right of the home page). Patrick A. Heller's radio program, "News You 'Know' That Just Isn't So, And Important News You Need To Know" is broadcast every Wednesday morning about 8:45 AM on 1320-AM WILS in Lansing (also streaming live at http://www.1320wils.com, where audio and text archives are available). Patrick A. Heller also owns Premier Coins & Collectibles, 7050 W. Saginaw Hwy, Suite 4, Lansing, MI 48917, Telephone 517-886-2646 Website: http://www.premier-coins.com. Patrick A. Heller also writes bi-monthly columns about collectibles for *The Greater Lansing Business Monthly* (posted online at http://www.lansingbusinessmonthly.com under "Articles" then "Department Columns" then "Collectibles." 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.