Liberty's Outlook

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Gold, Silver Drop!

Physical Demand Soars!
Where To From Here?
Rare Coin Market Going Into Overdrive! Time To Take Profits?

Last month, I discussed how the price of silver had more than doubled in the past 28 months to its highest level since 1987.

Gold also hit its highest price in 16 years and platinum stayed near its highest price since 1980.

I reviewed several important factors that affect the price of silver, stating "I don't have so clear an expectation of what the silver market will do in the next few months," and "you can own it now for a lot less that it will likely be in the next few years."

In the five weeks since the last issue of this newsletter, the prices of gold, silver, and platinum have dropped sharply. Gold has fallen $44.75 (10.6%), platinum by $86.00 (9.9%), and silver a huge $2.61 (31.9%)!

The near one-third fall for silver was the largest short-term drop since 1980.

It was not so instant as the end of the last major silver peak on March 20, 1987 when silver opened in the U.S. markets at $11.00, climbed quickly to $11.25, then fell to close at $8.20 that very same day. Back then, silver was still at $9.65 on April 24, 1987, so its five week decline was less than 13%, much smaller than what we have seen in the past five weeks.

With such a large decline in the silver price, that raises at least two questions:

- What happened?
- What does that mean for the future of the silver market?

Strange as it may seem at first impression, I would not change any of last month's short- or long-term analysis. Here's my thinking.

What Happened?

There was no substantive *new* news that would affect the precious metals markets in the past five weeks.

Instead, what we experienced was a episode of profit-taking that regularly happens in the course of an overall bull market.

Normally, a market like silver that is experiencing a long-term price rise will have several periods of profit taking, resulting in temporary minor price declines. The silver market has not really been hit with much of this over the previous 28 months.

So, in one sense, the silver market was overdue for some profit-taking and was ripe for a larger than normal drop.

All that it would take for a retraction to begin is some relatively minor news on which short-sellers could build momentum.

This time, it took effect on April 13. The U.S. government released figures showing that both consumer demand was strong and that the rate of inflation increased by its largest monthly jump in several years.

A number of analysts interpreted the news to mean that the U.S. economy was rebounding so strongly that interest rates would have to rise soon.

The logic is kind of twisted, but try to stay with me. Consumers, worried that the value of the U.S. dollar will decline because of the inflationary impact of huge budget and trade deficits, are abandoning the dollar and opting for tangible goods.

But, since the U.S. dollar is expected to be worth less, the U.S. government will be expected to pay a higher interest rate to finance its debt.

Then, with interest rates rising in the U.S., that makes the dollar more attractive to foreign investors, which makes the dollar more valuable versus other currencies!

This is a greatly simplified explanation of how <u>the anticipated decline in the value of the U.S. dollar</u> is considered to be good news that <u>makes the U.S. dollar more valuable</u>!

Huh?

I'm not joking. Although I haven't seen any other analysts juxtapose their comments on developments of the past few weeks quite this way, that is basically what they are saying.

As I explained last month, an increase in the value of the dollar normally leads to lower precious metal prices. The short-sellers took the momentum of this news and knocked down gold by 3% and the more volatile silver by 7% in one day!

Prices dropped further the next day, with gold down almost 5% for the two days and silver more than 12% lower!

Once gold dropped under $400 and silver below $7.50, the formerly active sellers of physical metal turned off the spigot. Renewed physical demand appeared.

However, the markets for physical gold and silver are dwarfed by the paper contract markets.

Although there was some recovery in gold and silver prices over the next few days, prices took another significant tum-

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ble on April 21 when major institutional investors revealed that they had sold out most of their silver positions. Gold fell 1.6% in the U.S. markets that day while silver dropped a whopping 10.8%!

The following week, Federal Reserve Board Chairman Alan Greenspan commented that energy costs would likely remain high, which could hurt the economy.

The threat of an economic slowdown because of the higher interest rates (sparked by an economic revival) shook metals markets once again. Lower industrial output means lower demand for raw materials such as silver and platinum, which are primarily industrial metals.

When the Federal Open Market Committee met last week to discuss short-term interest rates, they made no immediate changes. But the Committee's comments indicate that short-term interest rates may go up much sooner than formerly anticipated, perhaps as early as next month.

So, all of these tidbits of news, taken together, have given precious metals short-sellers a bonanza in the past month.

It has left investors in physical silver scratching their heads, trying to figure out why this happened and what does it mean for the future.

Where To From Here?

In terms of the silver market, I think today's prices are a "last chance" bargain buying opportunity before prices resume their climb.

- As silver climbed up above $7.50 in March, we were inundated by "weak hands" sellers, liquidating their holdings because the price was suddenly up, not because they seriously considered whether silver was near its long-term peak.
- When the institutional investors unloaded their silver positions in the past month, that eliminated that threat of more silver hanging over the market.
- Oil prices are reaching record levels. Although there is not a direct cause-and-effect relationship, precious metals tend to rise when oil prices are strong. Both hit major peaks in early 1980.
- Higher oil prices also provide more cash flow to many Middle East nations that are major consumers of gold.
- As I said, demand for physical gold and silver has been strong in the past few weeks.

A major reason for the coming strength in gold and silver prices is the prospect of the fall in the value of the U.S. dollar. Although the news of the past month has helped the dollar improve against other currencies, none of the news indicates that the U.S. trade deficit or federal budget deficits are magically disappearing.

The Japanese and Chinese central banks have subsidized the value of the U.S. dollar by more than $200 billion since the beginning of 2003! They cannot keep up this pace indefinitely.

Six days ago, the Bank of England raised its key interest rate by 0.25%. The European Central Bank is threatening to raise its interest rate. This puts even more pressure on the Federal Reserve to raise interest rates sooner rather than later, merely to stay competitive at attracting foreign investment.

So, despite the significant drop in precious metals prices in the past month, I don't think prices will stay down.

Fearless Forecasts

I'm going to stick my neck out and make some more short-term predictions for precious metals.

Gold could slide as low as about the $360 level, but look for it to rebound, going even higher than it was a few weeks ago. Although I anticipate some behind-the-scenes market manipulations to hold down the price of gold before the November elections, I predict that gold will reach $450 by the end of 2004.

I also think silver will rebound, going even higher than the $8.20 that it reached on April 6. It may not get to $8.00 until after the elections, but I think there is little chance that it could dip much below $5.50 for long.

While it is true that silver is largely an industrial metal, any whiff of higher inflation will lead to strong silver demand for investment purposes. If the economy improves, look for higher silver demand for industrial purposes. If we suffer inflation, silver demand will increase for non-industrial purposes. I consider silver to have incredibly low risk for a drop in value from today's price levels, while the appreciation potential is high—maybe even tripling or quadrupling in the next few years.

Platinum is still so close to its all-time high prices that I don't regard it as attractive as gold or silver. Supplies have not covered demand in the past few years, but not to the degree or for the length of time that gold and silver markets have experienced shortages.

If you missed out on purchasing bargain-basement gold and silver last year, don't miss out on this prime opportunity. Call us today.

New Industrial Application For Silver

Because of silver's relatively high price compared to other metals many decades ago, comparatively little research was done on expanding industrial uses of it. Since silver has become a relatively inexpensive metal, research into industrial applications is soaring.

A major thrust of the research is for uses of silver's antibacterial properties. Silver kills bacteria by a physical process which means that bacteria cannot develop an immunity by mutation, as happens with many drugs. I have previously told you about the use of silver in products ranging from water purification to antibacterial fabrics.

Another application in its infancy has a bright future—adding silver to paint to fight mold and mildew in buildings. Today's better insulated structures may save on heating and cooling costs but they also reduce the inside circulation of fresh air. This creates a more favorable breeding ground for mold and mildew. Former lower levels of these irritants may have only affected the occasional person, but some buildings now have such high levels of mold and mildew that a high percentage of residents in some homes or workers in some office buildings become sick. There are so many such structures that they even have a name—"sick buildings."

Paints containing special silver compounds are so effective that within 24 hours they kill 100% of the mold and mildew on surfaces to which it is applied—then continue working for years. At a current average incremental cost of about one cent per square foot to add this germ-fighting capability, a typical bedroom would cost less than $10 extra. Manufacturers expect most structural paints will contain these silver compounds within a few years, increasing annual silver demand by several million ounces for this single application..

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Rare Coin Market Goes Into Overdrive. Time To Sell?

The rare coin market is the healthiest we have seen it since the last major market peak in June, 1989.

In fact, many prices today are far higher than they were in 1989. In the past four weeks, LCS has enjoyed our two highest sales volume coin shows since the bullion boom of 1979-1980!

At the Central States Numismatic Society show in Milwaukee last week, we sold dozens of coins and banknotes to dealers at prices that were equal to or even higher than our retail prices!

The U.S. Mint's State Quarter program that started in 1999 has sparked an incredible surge in the number of coin collectors. The appearance of the Sacagawea Dollar in 2000 and the new nickel designs in 2004 and 2005 are adding to the excitement.

Now there is fast-track legislation in Congress to replace the Sacagawea Dollar in 2006 with a series of dollar coins honoring each U.S. president. There would be four new dollar coins issued each year, starting with George Washington and continuing in chronological order. Along with the dollars, the Mint would issue gold bullion-priced coins honoring the respective First Ladies.

There is also a push to have special Lincoln Cents struck from 2007-2009 for the Lincoln Bicentennial.

There is every prospect that all circulating U.S. coins will have a design change by the end of the decade.

Since the U.S. Mint began striking coins in 1792, major changes in coinage have led to an increase in the number of coin collectors. I fully expect that the number of collectors will continue to increase in the next few years.

As I have discussed before, the developing bull market in rare coins is collector-driven, not investor-driven as in 1989. Because of this, I expect the bull market to last longer and reach much higher levels than the last peak.

Overall, I expect most rare coin prices to rise from today's levels, some jumping as much as 1,000% or more!

Just like in any market, though, at any time there are coins (and I include paper money when I say this) that appear to be undervalued and those that are overvalued.

From our decades of experience with market booms and busts, we have identified several key-date coins that in many instances are already at their all-time high prices. Current wholesale action just doesn't make sense—their prices do not reflect their rarity compared to other coins in the same price range. Here are a few examples:

- 1856 Flying Eagle Cent in all grades—prices are up 400-600% since 1989.
- 1916 Standing Liberty Quarter in all circulated grades—these coins are readily available. In Very Fine condition it is up about 20% thus far in 2004; its price today is over six times what it was in 1989.
- 1932-D Washington Quarters in Gem MS-65 quality—now at four times its 1989 price.
- 1889-CC Morgan Silver Dollar in all grades—we have handled more of these in the past year than in the previous decade. In Very Fine condition, it now trades for more than eight times its 1989 level.
- 1895-O Morgan Dollar in all grades—these are now 400-1,000% higher than in 1989.

Coins such as those listed above may continue to appreciate, but on average I expect them to underperform most other rare coins in the future. If you have such coins, you may want to consider taking your profits now.

While I think that the overwhelming number of rare coins should continue to be held for the next few years, you are welcome to call us for recommendations on your holdings.

Gold and Gold Coins

Gold settled today at $377.50, down $44.75 (10.6%) from five weeks ago. This is the highest percentage decline in one month since October 1999, the month when profit-taking knocked down gold prices by 11% after a 25% increase the month before when the Washington Agreement on Gold was announced. You probably have to go back more than 20 years to find the last time that gold fell by $45 in a month.

In April, gold dropped in sympathy with silver and platinum. There was also some weakness in gold's price from a quote attributed to a high French central bank official that the French government was looking to sell some of its gold reserves under the renewed agreement on gold sales.

This news is startling, as the French government had been considered perhaps the strongest advocate of holding gold reserves. In one context, that might look like opening of the floodgates for central bank gold sales.

Such thinking would be shortsighted.

With the British central bank sales over, and the Swiss sales winding down soon (by the end of 2004 I believe), there is a looming void of central bank gold sales in the future.

Yes, central banks have been liquidating record amounts of gold in the past few years. But the amounts still have been too small to try to cover long-term fundamental supply shortages. The Washington Agreement on Gold only provided for 12.8 million ounces of gold sales each year. The renewed agreement bumps that up to 16 million ounces a year, but even that higher level is insufficient to stem the pressure for higher gold prices.

If the 16 million ounces of gold sales are not going to come from the British or Swiss, they have to come from somewhere. The nations with the largest holdings that might supply significant quantities are the United States, Germany, France, and Italy. The U.S. officially claims that it has not and will not sell gold, although there is suspicion that the U.S. has quietly liquidated more than 1/3 of its holdings. The Germans are discussing the possibility of selling some gold. Nothing has been reported by Italy, which leaves France to fill the void.

So, even though France might be considered a bastion supporting gold, the possibility of French central bank sales will not change the overall shortage of gold supplies.

As I noted earlier, demand for physical gold is strong at the current lower price levels. In fact, supplies of bullion-priced gold coins are among the tightest we have seen in the past 20 years! Many wholesalers will confirm coins but tell us that we may experience a 1-2 week delay in delivery because the coins are coming in from Europe or the Far East. As a result, some of our customers have had to wait a few extra days to get shipments.

The lowest premium bullion issues are still the U.S. **American Arts Medallion** (3.9%), Austria **100 Corona** (3.6%), and South Africa **Krugerrand** (3.8%). Premiums have not increased from last month, but they might if supplies get any tighter.

The same supply squeeze applies for

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several of the popular small European coins such as the British **Sovereign** (7.6%), French **20 Franc Rooster** (9.0%), and Swiss **20 Francs** (9.0%).

Common-Date U.S. Gold Coin prices are all over the map in the past month, though none have fallen as much as the price of gold (and some have actually increased). Some of this better result is due to an increase in demand that is triggered, no doubt, by the lower gold prices. Many prices are still at attractive levels. The $10.00 Liberty in Choice Mint State-63 quality currently sells for about $800, for example, which is barely 20% of its price back in 1989.

We simply cannot find decent-sized groups of **Better-Date U.S. Gold Coins.** Everybody is chasing them. The best that it seems we can do lately is to find a single coin here and a few there and gradually try to accumulate enough of any issue. This process doesn't necessarily help our customers as prices may increase before we have enough to offer. Still, if you are flexible, you can find occasional bargains. We have a few one-of-a-kind Better-Date pieces on our list of **10 Spectacular U.S. Rare Coin Bargains.**

One of the most important gold coins in world history is the **French 20 Francs issued by Napoleon**. Fifteen years ago, they were available by the thousands, and we sold large quantities of this popular coin. Then supplies dried up. Today, wholesalers tell us that they are hard to find in Europe. But we were fortunate to acquire a large enough group here in the U.S. to make our first offer of them in 12 years. Best of all, by purchasing them after the price of gold had declined, we can offer them at our lowest price since the 1970s. See our offer for details.

The Month

Gold Range	$45.25	10.7%
Net Change	-44.75	
Silver Range	2.65	32.4%
Net Change	-2.61	
Gold/Silver Ratio	67.8	
Net change	+16.2	
Platinum Range	159.00	18.3.0%
Net Change	-86.00	
Platinum/Gold Ratio	2.08	

Date	Gold	Silver	Platinum
Apr 07	422.25	8.18	871.00
Apr 08	419.50	8.07	896.00
Apr 09	closed		
Apr 12	419.75	8.01	927.00
Apr 13	407.00	7.45	918.00
Apr 14	399.75	7.00	914.00
Apr 15	397.75	7.07	915.00
Apr 16	401.00	7.14	918.00
Apr 19	400.50	7.20	926.00
Apr 20	397.50	6.94	912.00
Apr 21	391.00	6.19	882.00
Apr 22	393.25	6.03	832.00
Apr 23	395.00	6.16	842.00
Apr 26	396.00	6.17	816.00
Apr 27	398.50	6.23	837.00
Apr 28	385.75	5.87	800.00
Apr 29	386.50	5.82	778.00
Apr 30	387.50	6.07	792.00
May 03	387.50	6.02	804.00
May 04	391.50	6.04	814.00
May 05	393.25	6.11	805.00
May 06	388.00	5.84	794.00
May 07	378.75	5.59	779.00
May 10	378.25	5.77	768.00
May 11	377.00	5.53	780.00
May 12	377.50	5.57	785.00

London Silver Market Premium To New York Silver Market = 1¢

Gold, silver and platinum quotes are working spots at 2:45 EST/EDT each day, quoted in U.S. dollars per troy ounce.

Silver and Silver Coins

Silver closed today at $5.57, down an incredible $2.61 (31.9%) from last month. This is the largest one month decline in the price of silver going back perhaps all the way to 1980.

A month ago, if I had been asked if silver could fall by one-third in the short-term, I would have said that it was possible but I did not expect it to happen. I am surprised that it fell this far, but it was within the range of what I considered to be possible.

When silver closed at $5.53 yesterday, that was its lowest since it was at $5.47 on December 5, 2003, barely five months ago. To give a bit of perspective, silver closed at $4.86 exactly one year ago. Today, even after the huge decline in April, it is still up 14.6% in the past year!

With the surge in demand for physical silver, premiums on all bullion-priced forms are higher. For instance, U.S. **90% Silver Coin** (5.6%) now costs about 31 cents per ounce above its intrinsic value whereas you could buy it at only a four cent premium when silver spot was over $8.00. It is still the low price leader and also has the advantage of greatest liquidity and divisibility compared to other physical forms of silver.

The premiums for **100-1 Ounce .999 fine Ingots** (7.8-9.0%) mean that these forms would cost you at least 12 cents per ounce more than to purchase silver in the form of 90% Coin..

Last month, I withdrew my recommendation of swapping gold for silver to take advantage of the formerly unbalanced ratio. The gold/silver ratio jumped sharply again this month, so it might be worth considering again. I expect the ratio to drop to the 50-55 range by year end, so it might be possible to make a profit with such a swap without having to lay out much cash.

As I have been advising you for several months, the stockpiling of **High-Grade Common-Date Morgan and Peace Silver Dollars** continues. Even with the precipitous drop in the price of silver, the prices for these coins have been solid over the past month, from holding even to rising more than 10%. I think we are seeing the beginning of the next great surge for these coins. Supplies of **Mint State Rolls of Morgan and Peace Silver Dollars** are also drying up.

Wholesalers and dealers are becoming increasingly aggressive at trying to locate deals of numismatic silver coins. We have had particular success locating some bargain deals this month, thanks to two dealer friends and one of our customers.

First, we acquired the first hoard of **Choice Mint State-63 and –64 1935-S Peace Dollars** in our history. To give you an idea how scarce they are, we scoured the Central States Numismatic Society convention last week, one of the largest coin shows in the country, and did not find a single specimen in either grade anywhere.

From our customer we picked up some extra high quality **rolls of the scarcer Early Roosevelt Dimes**. Finally, from another dealer, we picked up a quantity of the **2003 Canada Hologram 2003 Silver Maple Leaf Sets**, which includes the unique $3.00 and $4.00 denomination coins.

See our flyers for details.

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