

Liberty's Outlook

Volume 11 Issue 5 Liberty Coin Service's Monthly Review of Precious Metals and Numismatics May 4, 2005

Fighting Inflation Is Fed's Top Priority!

P. 2: Respected Conservative Analysts Are Strong Bulls On Gold & Silver

April was a volatile month for metals, though gold and platinum are little changed from five weeks ago. Silver is down about 2%.

Still, as you can see from the table to the right, precious metals and rare coins have generally outperformed the U.S. dollar and U.S. and world stock indices thus far in 2005.

The economic news has not been good so far this year. Yesterday, the Federal Reserve Open Market Committee raised their benchmark interest rate for the eighth consecutive time in less than a year, stating that the fear of high inflation continues to be their greatest concern.

Indeed, some of the inflation statistics are disquieting. No matter how distorted any particular inflation indicator might be, almost all are showing a sharp increase in their inflation rate. The U.S. Consumer Price Index (CPI), which had been in the 1.5-3.0% range for the past few years, may now be in the 6.0-7.5% range, for example.

(Side note—the CPI only considers rental costs for its housing component on the theory that rent payments happen monthly whereas houses are purchased infrequently. Rents have been held down by slack demand in recent years as many former renters took advantage of low mortgage interest rates to purchase homes. At the same time, housing prices have soared. The respected magazine, *The Economist*, reconstructed the CPI with an adjustment for using mortgage payments in place of rentals in approximate proportion that Americans either own or rent their residences. Under this analysis, the CPI was approximately

Results For 2005 To Date

As of May 3, 2005

| <i>Precious Metals</i> | |
|------------------------|-------|
| Palladium | +3.8% |
| Platinum | +0.9% |
| Silver | +0.6% |
| Gold | -2.5% |

| <i>Numismatics</i> | |
|-----------------------------------|-------|
| LCS US Collect Generic Coins Idx | +4.6% |
| LCS US Collect Key-Date Coin Idx | +2.0% |
| US MS-63 \$20 Liberty | +2.0% |
| US Silver Proof Sets, 1950-1964 | +1.4% |
| US Non-silver Proof Sets, 1968-98 | +0.5% |
| US MS-63 \$20 St Gaudens | 0.0% |
| US MS-65 Morgan Dollar | -3.3% |
| US Proof Silver Eagles, 86-98 | -6.9% |

US Dollar vs Foreign Currencies

| | |
|---------------------|-------|
| Euro | +5.3% |
| Switzerland Franc | +5.0% |
| Canada Dollar | +4.4% |
| Great Britain Pound | +1.3% |
| India Rupee | +0.8% |
| China Yuan | 0.0% |
| Mexico Peso | -1.2% |
| Japan Yen | -2.1% |

US And World Stock Indices

| | |
|------------------------------|--------|
| London FT 100 | +1.0% |
| Frankfurt Xetra DAX | -0.2% |
| S&P 500 | -4.2% |
| Tokyo Nikkei 225 | -4.2% |
| Dow Jones Industrial Average | -4.9% |
| Russell 2000 | -10.3% |
| NASDAQ | -11.1% |

6% at a time when the U.S. government statistic was 3%.)

Precious metals have long served as a safe haven against the ravages of inflation. Despite the recent developments of financial instruments that seem to turn the ownership of gold or silver into a paper asset, the ultimate protection is provided by having physical precious metals in your possession and direct control. Thus, rising inflation bodes well for rising gold and silver demand, and is likely to spur higher prices for precious metals and rare coins.

The one major indicator that isn't showing rising inflation is the 10-year U.S. Treasury bonds, now yielding a lower interest rate than they did before the Fed began raising short-term interest rates last June. The Fed is even reported to be puzzled by this anomaly.

It makes perfect sense to me. The U.S. economy is running record trade deficits, topping \$60 billion per month. A lot of foreign

governments and investors are piling up U.S. dollars that they need to spend or invest. Since U.S. Treasury debt pays a higher interest rate than government bonds denominated in Euros or yen, there continues to be huge demand for Treasury bonds. When demand for bonds is high, interest rates are lower than they would be if demand declined. Hence, the inflationary pressures of the huge trade deficit (along with the massive federal government budget deficits) also contribute to lower than expected interest rates on long-term U.S. Treasury debt. It has even stanchied the fall of the value of the U.S. dollar, as you can see in the table above.

For now.

But inflation isn't the only problem facing the U.S. economy right now. Large numbers of major U.S. corporations are reporting lower earnings and, some, like

(Continued on page 2)

| | | |
|---------------------------|---|---------------|
| Inside this issue: | New Industrial Applications For Silver | page 2 |
| | Go For Low Premium Gold And Silver | page 3 |
| | New Toll-Free Quotes Line | page 4 |

(Continued from page 1)

General Motors, are even posting losses.

Rising unemployment, already a problem in other industrialized nations, threatens to increase in the U.S. Here in Michigan, the state government scheduled a jobs fair to help teenagers find summer jobs, but cancelled it because too few employers signed up to find new employees.

Right now, we are already seeing some consumer spending hesitancy. The auto companies are trying to move product at especially attractive prices, but unit sales are still dropping. If consumers are worried about the security of their job down the road, they are less inclined to take on debt—especially with rising interest costs.

So, at the same time that the Fed is worried about inflation and the need to tighten monetary policy, it is facing the prospect that the tightening already may be bringing on a recession—or worse.

All the government interventions in the economy over the years have caused distortions over what would

have happened in a free market. As distortions have piled up on top of other distortions, the cost of the eventual correction escalated.

The risk is growing for major declines in the value of paper assets like the U.S. dollar and stocks and bonds. This bodes well for higher prices of precious metals and rare coins in the coming years.

Or maybe the major boom in gold and silver will come a lot sooner.

Gold Fields Mineral Services And CPM Group Forecast Sharply Higher Gold And Silver Prices By Year-end

The two most respected analysts of the precious metals markets are probably Gold Fields Mineral Services (GFMS) in London and the CPM Group in New York.

GFMS annually produces the *World Silver Survey* for the Silver Institute and publishes its own *Gold Survey*. GFMS produces the research that is distributed by the World Gold Council.

CPM Group is a consultant to investment brokerage firms, governments, and central banks. The company produces its own annual gold, silver, and platinum group surveys.

The opinion of both firms carries a lot of weight among major investors, almost mak-

ing their predictions self-fulfilling.

Both of these firms are likely to understate their forecasts of future price movements. I cannot recall either ever making what might be seen as an outrageous prediction.

Given their penchant at making forecasts of only small price moves, I am astonished by their predictions for gold and silver prices in 2005.

The London Bullion Market Association is the world's largest market for trading paper contracts of precious metals. Each year, it polls the top precious metals analysts around the world about their price forecasts for the year.

As a group the 25 analysts included in the recently-released 2005 gold survey predicted an average high for 2005 of \$481. Six of these analysts, including GFMS Chairman Philip Klapwijk, projected gold to reach at least \$500. Klapwijk was second-highest of the group in projecting that gold would average \$461 for all of 2005.

Jeffrey Christian of CPM group was not as optimistic, expecting gold to only reach \$470 for a 2005 high.

Among the 20 analysts of silver, Jeffrey Christian made the highest predic-

New Technological Applications For Silver Likely To Increase Demand

When silver was considered a "precious" metal, researchers largely ignored investigating the use of silver in industrial applications.

Today, silver is priced low enough that calling it a "precious" metal may be a misnomer. Scientists are making up for lost time in finding exotic new uses for it. It turns out that silver's anti-bacterial and other distinctive properties make all sorts of applications possible at cost-effective levels. Here are a few examples of new silver-containing products being investigated or in actual commercial production:

Agricultural crop pesticide. Scientists are currently lining up funding to test the use of silver to combat citrus canker, a bacterium-caused affliction that threatens many citrus crops grown in Florida and Latin America.

Chemical and biological weapons detoxification. Because silver has a quick broad scale effectiveness against infectious organisms and many chemicals, it is being tested for use in clothing and respiratory equipment worn by military, emergency, and first response personnel.

Enhance wood resistance to termites and fungus rot. Already completed research shows that is effective at protecting wood against these problems, but further studies are needed before it goes into commercial production.

Solder. Lead solders have been widely used in the manufacture of electronic equipment. The European Union and some other nations have adopted regulations banning products that contain more than trace amounts of hazardous substances such as lead. Because of this, the solder, which formerly was made up of 37% lead, now is being made of an alloy of tin, copper, and silver.

Seals in dairy processing equipment. Dairy processing equipment with silver-permeated rubber seals is already being sold. The seals provide anti-bacterial protection even after repeated washings and abrasion. Now such seals are being tested in equipment used by brewers and other food processors.

Anti-microbial cell phone cases. Applications are currently being researched with funding provided by Motorola, Inc. and Paladin Capital Group.

Anti-microbial bathroom fixtures. AmeriSwiss Company, ASC, is already selling public restroom equipment that has silver in the protective finish for door pulls and plates to minimize bacterial growth.

Hologram images that change. Silver particles placed on a thin polymer strip can be designed to change shape in different chemical environments. The changes can be seen as symbols, words, or numbers, depending on the circumstances. Some prototypes of possible products have already been made such as contact lenses that measure glucose levels to warn diabetics about sugar problems, or plastic sticks in milk bottles that change when the milk has spoiled, or a badge that checks the alcohol level that could give a readout of a person's alcohol level or simply read a message like "not legal to drive."

Because of its useful attributes, silver will likely continue to grow in industrial demand for a long time to come.

(Continued from page 2)

tion both for silver's high (\$9.50) and for annual average price (\$7.20). For Silver, Philip Klapwijk forecasted a 2005 high of \$8.40 and an average price of \$6.79.

Both of these predictions were well above the group's average prediction of a high for silver of \$7.875 and an annual average of \$6.564.

I personally am more optimistic than these "conservative" forecasts. I still think that gold will reach \$500 in the not-to-distant future and then have a 50% chance of reaching \$600 by the end of 2005. As for silver, I expect it to reach \$10.00 by mid-year and have a 50% chance of \$20 by year end.

These surprisingly high forecasts from GFMS and CPM Group make me feel even more comfortable with my "over-the-top" projections.

Incidentally, last week GFMS released its *Gold Survey 2005*. Among significant facts and conclusions included in the book are

- 1) Official sales in 2004 dropped 23% from 2003, to reach a five year low. Although official gold sales are expected to increase to a record high 16.1-17.7 million ounces in 2005, almost half of that was sold by the end of March. As a result, official sales for the balance of 2005 should actually fall below the levels of the past few years.

- 2) Other sources of gold supply dropped in 2004. Global mine production dropped 5% while recycling fell to a 3-year low. While gold mine production should rise in 2005, it will still be below 2003 levels.

- 3) However, investors were net liquidators of gold during 2004, rather than net purchasers as in 2002 and 2003. Still, the next liquidation occurred more in the early months of 2004 as investors were net buyers in both the third and fourth quarters of the year.

GFMS expects substantial net investment purchases of gold in the second half of 2005, which will be triggered by any one of a number of possible "trigger events."

- 4) On the demand side, fabrication demand in all sectors increased, with the largest—jewelry—rising 5%! Jewelry fabrication demand in India, the world's largest gold consuming nation, rose a whopping 16% even though the price of gold rose 9% compared to the Indian Rupee for the year!

- 5) Gold miners reduced their pre-sold

gold position by a record level net 14.1 million ounces during 2004. They forecast that the mines will reduce their pre-sold positions by another 9.0-10.5 million ounces in 2005.

With "conservative" insiders expecting much higher prices for gold and silver in the near future, I recommend that you purchase your gold and silver sooner rather than later.

Go For Low Premium Gold And Silver

A regular question we are asked by prospective new buyers of gold or silver is which kinds to purchase.

With gold, there are literally dozens of nations that issued bullion-priced coins, including Australia, Austria, Belgium, Canada, Chile, Colombia, China, France, Gibraltar, Great Britain, Isle of Man, Italy, Mexico, the Netherlands, Peru, Russia, Singapore, South Africa, Switzerland, Turkey, and the United States. Then there are also various sizes of gold ingots to consider.

For silver, there are old silver coins the actually circulated such as U.S. 90% and 40% Silver Coins and Canada 80% Silver Coins plus various sizes of ingots.

With very few exceptions (such as the lower mintage U.S. American Arts Medallions), coins that were originally marketed on the basis of bullion value are destined to be liquidated on the basis of their gold or silver content. Because of this, it only makes sense to acquire the forms of gold or silver that cost the lowest premium.

When a coin such as the Austria 100 Corona or South Africa Krugerrand has been sold in large quantities over time, eventually a steady supply of coins will be liquidated by investors. It is cheaper for dealers and wholesalers to buy these coins from the public rather than through the various distribution channels for each mint. These liquidations displace demand for new coins from the Mint. If the amount being liquidated meets or exceeds all of the new investor demand to purchase the same coins, the premium *falls*.

If a rising price of gold is sparking massive liquidations, dealers will have to sell their coins to refiners. In order to make a profit reselling gold in this situation, dealers will have to purchase the coins for enough below gold value to cover the costs of refining and shipping. In such a circumstance, it makes

little difference just which bullion gold coin you are selling.

So, if you are likely to be selling your gold someday for less than the spot price of gold, it doesn't make any sense to pay extra today to buy one form over another, except that pure gold coins can be worth a modest premium to alloyed coins as the refining costs will be less.

This same discussion applies to silver. Pure silver ingots can be worth a slight premium over alloyed silver coins because of lower refining costs, so they may be worth acquiring if they cost only a few cents per ounce more than the coins.

Other factors that influence which forms are the best to purchase are divisibility, storage requirements, and liquidity. If U.S. 90% Silver Coin and 100 Ounce Ingots cost about the same price per ounce, go for the 90% Coins. It is far more divisible—a silver dime has about 1/14 ounce of silver while a 100 ounce ingot has to be traded as an intact unit. Plus the 90% Coin is much more widely known and is more acceptable in barter circumstances.

U.S. 40% Coin needs much more storage space to store the 60% of the weight of the coins that is not silver (and has higher postage costs to ship each ounce of silver content). Plus, when the price of silver spiked above \$7.00 in early 1998, the Handy & Harman refinery simply stopped buying low purity silver forms like 40% Coin completely so they could concentrate on processing more silver fast.

Gold coins trade much more widely than ingots, and have closer buy/sell spreads as a result. The most widely traded gold coins include the British Sovereigns, South Africa Krugerrands, Austria 100 Coronas, Austria Philharmonics, Canada Maple Leafs, Australia Kangaroos, and U.S. American Eagles.

Premiums can and do change over time, which occasionally present some opportunities to swap and increase the ounces of gold or silver held by an investor.

At the moment, the forms of gold we recommend for best value include the Austria **100 Coronas** (3.5%), South Africa **Krugerrands** (3.7%), and U.S. **American Arts Medallions** (3.7%). Among smaller coins, the British **Sovereigns** (7.7%) are a favorite.

The best buy in silver right now is U.S. **90% Silver Coin** (3.6%).

(Continued on page 4)

(Continued from page 3)

Each of these issues have minor advantages and disadvantages. You are welcome to call or stop by to discuss them in more detail.

Watch Out For Overpriced Promotions

Few things get us as steamed as hearing of someone who was charged what we consider an outrageous price, even if the coins themselves represent a good value. Here's just a recent example.

Last week a customer called our store to say he was being offered a four-piece U.S. American Eagle Gold Proof Set, with each coin certified as Near Perfect Proof-69 Deep Cameo for the price of \$3,500. He wanted a second opinion of whether that was a good value. When we told him that we had the exact same product in stock that he could purchase from us for \$1,395, he came in to pick it up from LCS that very afternoon.

Another area where I am already seeing suspect promotions are medals and coins issued to honor the recently deceased Pope John Paul II and the newly elected Pope Benedict XVI. Be careful.

If you would like a second opinion on an offer you see, just give us a call. You just might save yourself some money.

Gold and Gold Coins

Gold closed today at 429.00, up \$1.50 (0.3%) from five weeks ago.

As I explained last month, the price of gold did take a dip when the Fed announced an interest rate hike yesterday. However, the price of gold may already be recovering—just one day later.

Common-Date U.S. Gold Double Eagles in circulated and Mint State-60 grades are down to near bullion kind of levels. They are a great buy now, but there are even more enticing values with higher-grade issues and with **Better-Date U.S. Gold Coins**.

High-grade \$2.50 Indians were overpriced relative to their rarity compared to other \$1.00 to \$10.00 Liberties and Indians. They have been heavily hyped by one promoter in Texas, with some success. However, this company must be taking a breather and the prices for these coins fell more than 10% in the past month. They still represent good value compared to the last major market peak,

The Month

| | | | |
|---------------------|-------------|---------------|-----------------|
| Gold Range | \$13.75 | 3.2% | |
| Net Change | +2.00 | | |
| Silver Range | .49 | 6.9% | |
| Net Change | -.15 | | |
| Gold/Silver Ratio | 61.5 | | |
| Net change | +1.6 | | |
| Platinum Range | 23.00 | 2.7% | |
| Net Change | +9.00 | | |
| Platinum/Gold Ratio | 2.03 | | |
| Date | Gold | Silver | Platinum |
| Mar 30 | 427.00 | 7.13 | 863.00 |
| Mar 31 | 428.50 | 7.16 | 865.00 |
| Apr 01 | 426.00 | 6.98 | 859.00 |
| Apr 04 | 423.75 | 7.02 | 855.00 |
| Apr 05 | 424.25 | 7.03 | 854.00 |
| Apr 06 | 427.00 | 7.11 | 860.00 |
| Apr 07 | 426.50 | 7.07 | 863.00 |
| Apr 08 | 427.00 | 7.16 | 858.00 |
| Apr 11 | 428.50 | 7.25 | 857.00 |
| Apr 12 | 427.50 | 7.15 | 861.00 |
| Apr 13 | 429.00 | 7.20 | 865.00 |
| Apr 14 | 424.00 | 7.06 | 860.00 |
| Apr 15 | 424.75 | 7.02 | 862.00 |
| Apr 18 | 427.50 | 7.04 | 858.00 |
| Apr 19 | 432.75 | 7.24 | 866.00 |
| Apr 20 | 435.25 | 7.33 | 873.00 |
| Apr 21 | 433.00 | 7.22 | 871.00 |
| Apr 22 | 434.00 | 7.27 | 873.00 |
| Apr 25 | 434.25 | 7.26 | 875.00 |
| Apr 26 | 437.50 | 7.25 | 877.00 |
| Apr 27 | 433.00 | 7.13 | 867.00 |
| Apr 28 | 431.25 | 6.91 | 862.00 |
| Apr 29 | 435.00 | 6.90 | 865.00 |
| May 02 | 429.25 | 6.84 | 867.00 |
| May 03 | 426.50 | 6.85 | 867.00 |
| May 04 | 429.00 | 6.98 | 872.00 |

London Silver Market Premium To New York Silver Market = 2¢

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

but other coins like the \$2.50, \$5.00, and \$10.00 Liberty, and the \$5.00 and \$10.00 Indian look like much better values.

Other types of Common-Date U.S. Gold Coins were up or down slightly.

At the end of 1998, the U.S. Mint announced final mintage figures for the series of coins issued to commemorate the 1996 Atlanta Olympics. We noticed that two of the \$5.00 Gold issues had the lowest mintages of any U.S. gold coin since 1922, and found a group of them that we could sell to

our customers for as little as \$228 apiece. Today these coins are selling for about double their 1999 prices.

We have just stumbled into another such opportunity. After we picked up a group of **Near Perfect Mint State-69 U.S. \$10.00 2003 Wright Brothers First Flight Centennial Commemorative**, we learned from the U.S. Mint that its mintage was only 10,009—the lowest of any Mint State \$10.00 Gold Coin since 1889. Already we are seeing these coins offered for prices that are more than 50% higher than we offer them here. When our group is gone, we will have to decline further orders. See our flyer for details.

Silver and Silver Coins

Silver finished today at 6.98, down 15 cents (2.1%) from last month.

When the retail premium for 90% Coin is over 2%, such as it is now, that tells you that its wholesale value is too high for refiners to profitably recycle the coins. Effectively, this causes a major drop in available silver supplies. The longer that the retail premium on 90% Coin stays above 2%, the greater the pressure for higher silver prices down the road.

In the chart on page 1, you see that the Collector Generic coins are up 4.6% so far this year. These are the very coins that tend to be offered by promoters to newly interested collectors. Many of the coin in this index are various silver coins. Even coins like the **Mint State 1964 Kennedy Silver Dollar Rolls** that we offer this month could take off. See our offer for details.

By the way, we have added a toll-free quotes line where you can call late in the afternoon to late the next afternoon to hear closing spot prices. See below.

Call our New Toll-Free Quotes Line:

800-825-8930

for spot prices at the last U.S. market close and price indications for U.S. 1 Oz Gold Eagles and U.S. 90% Silver Coin Bags.

For a more detailed list of prices, check Computer Quotes on our website

www.libertycoinservice.com