Liberty's Outlook

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IRS Assault On Global Financial Privacy May Backfire!

Will U.S. Stock And Bond Markets Crash By January 1, 2001?

An apology: I know the above headline is alarming, That is not the way I try to write Liberty's Outlook. *But you need this information now, before it may be too late, rather than whenever you might happen to get around to reading this. If the headline gets you to read this newsletter today, its purpose is served.*

You may never have heard of Internal Revenue Service (IRS) Form W-8IMY.

Perhaps you missed the news about new U.S. regulations that take effect on January 1, 2001 that will force foreign brokers and banks to provide the IRS with the true identities of all customers and clients who hold U.S. stock and bonds.

It doesn't matter whether you already know or not. In less than two months, there is a good chance that your financial well-being will take a major hit, courtesy of the IRS's major assault on *global* financial privacy.

Under these regulations, foreign brokers and banks are facing three options:

—they can agree to become a "Qualified Intermediary" by filing detailed forms with the IRS, containing clear evidence of the identity of the broker/bank's client, for every single customer who owns U.S. stocks or bonds. There is some possibility that this will also cover other customers who receive rents, royalties, and compensation of any kind from the U.S.;

—they can withhold and turn over to the IRS up front 30% of the customer's gross proceeds from investments;

—or they can only accept customers who have no investments in the United States.

What is the amount of foreign investments affected by these new regulations? No one knows for sure.

However, the IRS recently filed court documents estimating offshore investments in the U.S. at $5 *trillion* ($5,000,000,000,000)! Just one component, drug-trafficking profits, may represent over $300 billion of the total. Another huge portion is money hidden offshore by U.S. citizens who then use these hidden assets to make investments in America.

Much foreign investment in the U.S. is certainly legitimate. Because of this, foreign governments have little choice but press their banks and brokerages to become unpaid agents of the IRS.

Switzerland capitulated, though it did negotiate a procedure where U.S. account holders would not be reported to the IRS without prior consent from the customer (but simply maintaining investments in the U.S. is considered "consent").

Austria, which had even more bank privacy in some respects than Switzerland through the use of numbered accounts, has eliminated numbered accounts altogether, for Austrian citizens and foreigners alike!

Foreign banks and brokerages report that their U.S. and foreign customers who have investments in the U.S. and who already report and pay taxes on this income to the IRS, are grumbling but going along with the extra paperwork and privacy invasion.

The problem is the clients who do not report the income to the U.S. and do not pay taxes thereon. Brokerages and banks have found (surprise! surprise!) that such customers are unwilling to have their identity reported to the IRS and begin reporting taxable income and paying taxes that they previously had not!

The only way out for such customers is to liquidate their U.S. stocks and bonds by the end of this year. Many have already done so. We could easily see hundreds of billions liquidated in the next eight weeks!

The U.S. stock and bond markets have not crashed in 2000, although virtually every index is down for the year. But what do you think will happen by year end if, for instance, 3% of all U.S. stocks and bonds are liquidated with a "price-

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2000 Eagle Sales Plummet

High platinum prices and the Mint's policy of using higher Zurich platinum spot prices have crippled the sale of Platinum Eagles this year. Because of the huge liquidation after January 1, 2000, Mint sales of Gold Eagles this year have almost evaporated. Here is the comparison of Mint sales for the first ten months of 1999 and 2000.

Platinum Eagles	*1999*	*2000*
1 Oz	45,000	8,000
1/2 Oz	21,800	10,600
1/4 Oz	24,200	12,600
1/10 Oz	30,000	23,000
Gold Eagles		
1 Oz	1,334,000	24,500
1/2 Oz	220,000	38,000
1/4 Oz	482,000	30,000
1/10 Oz	2,430,000	140,000

Note: Sales figures are not the same as mintages. The Mint sells some following years coins to primary distributors in December of each year.

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doesn't matter" attitude?

These new regulations will have the effect of permanently decreasing demand for U.S. stocks and bonds and temporarily increasing supply. It will also decrease the demand for, and therefore the value of, the U.S. dollar against other currencies. With the scares that investors have already had this year, a sell-off of this magnitude could easily snowball into a major decline.

Why would the IRS even consider taking such steps that have the risk of crippling stock and bond markets and, thereby, future tax collections?

Two words: money laundering.

The IRS's Global Assault On Financial Privacy

Earlier this year, the IRS had to back down on proposed "Know Your Customer" regulations. These would have required banks and financial institutions to report to the IRS all non-typical transactions in any accounts such as earning a bonus at work, withdrawing or buying a new certificate of deposit, buying or selling a car, making family loans, going on vacations, and so forth. In effect, the regulations would have required banks to develop lifestyle patterns for every single customer and report every transaction that was in any way out of the norm.

The IRS caved in to the public uproar over the proposed regulations. But the agency is now using other ways to get to that same goal. The identification of foreign investor regulations that take effect on January 1 are just part of the assault. Here are some other angles being worked.

1) The IRS was front page news two days ago when U.S. District Judge Adalberto Jordan ordered Mastercard International and American Express Travel Related Services Co. to turn over 1998 and 1999 transaction records for tens of thousands of U.S. citizens with credit cards issued by banks in Antigua and Barbuda, the Bahamas, and the Cayman Islands.

In filing the petition on October 18, the IRS said that it loses $70 billion in annual tax collections from individual taxpayers who use offshore accounts to evade taxes. The IRS manager for trust accounts said "The countries that were selected were selected because they are representative of the problem. We know they have a high U.S. presence there so the numbers could get very high."

The petition was filed in Miami as both companies use Miami subsidiaries to clear transactions for credit cards from the islands.

This investigation will be one of the largest-ever IRS probes of offshore tax havens. The IRS is searching for tax evaders and non-filers for both legally and illegally obtained assets.

Such island nations have become popular for wealthy Americans because some impose no income taxes, and have not cooperated in the past in actions to enforce tax laws of other nations.

This competition for investment assets by the governments of other investor-friendly nations puts the United States and other high-tax governments at a disadvantage.

Naturally, the IRS doesn't want to admit that it is the draconian American tax laws that is driving investors beyond America's borders. Instead, the IRS claims that the real reason it needs information on investors around the world is to "fight drug-trafficking."

2) This past summer, the U.S. Treasury's Financial Crimes Enforcement Network (FinCEN) expanded the application of the "Suspicious Activity Report".

Now, all financial institutions operating in the United States "are required to make this report following the discovery of: insider abuse involving any amount, violations aggregating $5,000 or more where a suspect can be identified, violations aggregating $25,000 or more regardless of a potential suspect, or transactions aggregating $5,000 or more that involve potential money laundering or violations of the Bank Secrecy Act."

This is a weaker "Know Your Customer" regulation than was proposed earlier. Still, banks are safer filling out the report than trying to make judgment calls on whether it is required in a particular situation.

By the way, it is possible that if you ask your local bank manager about this regulation, he or she would then be required to fill out this form on <u>you</u> for all of your subsequent transactions!

3) Under pressure from the intergovernmental Financial Action Task Force on Money Laundering (FATF), eleven of the world's largest international private banks announced two days ago that they are will formally establish their own "Know your customer" controls.

The purpose of this self-regulation is to make a specific effort to detect money laundering attempts and to turn away such business. The banks emphasize that the rules will work against corrupt politicians and businessmen as well as narcotics dealers and organized crime.

Although exact guidelines have not been set, one official anticipates that any new accounts or deposits above a minimum threshold (estimated to be $3-5 million) will trigger extra scrutiny.

Depositors would be required to disclose the purpose of the account, anticipated activity, the source of their wealth, estimated net worth, and provide references to corroborate the depositor's reputation.

In addition, all current and former government officials from nations judged to be highly corrupt (such as Nigeria and Yugoslavia), plus any new accounts by anyone from those countries, will also be subject to the extra scrutiny.

American banks included in the agreement are Citibank, Chase Manhattan, and J.P. Morgan. The other eight banks are from Europe, including Deutsche Bank, UBS, Credit Suisse, HSBC, and Barclays.

4) The Organization for Economic Cooperation and Development (OECD) has also published a blacklist of tax haven nations, giving them one year to eliminate financial privacy or else face unspecified sanctions.

The Cayman Islands quickly announced that it would begin to share information in non-criminal tax cases. Bermuda has also surrendered. Other nations, mostly in the Caribbean and south Pacific, are working on their responses.

Although several of these impositions are the work of international organizations, have no doubt that the IRS exerts lots of influence for such actions.

When the IRS can get away with these global assaults on financial privacy, it becomes that much easier for them to be imposed inside the U.S.

For the sake of collecting taxes, the IRS could soon end up crippling the U.S. economy. It seems to be the IRS's attitude that, to uncover the relatively small number of crooks and scofflaws, the far larger number of law-abiding citizens must be put under the microscope and burdened with extra paper-

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work.

Protect Yourself Now!

If you happen to own any U.S. stocks or bonds through a foreign bank or brokerage, contact them immediately if they have not already been in touch with you about the new regulations.

If you have been following the advice I have offered all along, you already have an "insurance" position of gold and silver bullion-priced coins and ingots. They should offset some of the losses you may suffer with your paper assets.

If you are still waiting for the "right time" to make your purchases, do it now! Gold is at its lowest levels in more than 13 months and silver is around its low for the year.

If the IRS persists in driving the underground economy further underground, a likely beneficiary will be tangible assets, especially those that leave no paper trail for the IRS.

We have seen many Treasury auctions of assets seized from drug dealers where there were significant quantities of bullion coins and ingots and of collectible rare coins.

I am definitely not telling you to engage in tax evasion or other illegal activities. But you do have a right to privacy for your legal activities. If the IRS is going to deflate the stock and bond markets, there is no reason why you cannot position yourself to profit from the fallout.

2000 Gold Eagle Sales Coming Back To Life!

Through the end of October, the U.S. Mint's year-to-date Gold Eagle sales were more than 96.6% below levels for the same ten months of 1999!

Sales in 1999 were much higher than normal because of buying for protection against possible calamities on January 1, 2000. Sales of newly minted coins this year have been hurt because the massive liquidations of earlier-dated coinage made them available at significantly lower premium levels.

While not on the scale of 1999, the Mint's sales of all four sizes of Gold Eagle in October soared to 19,500 ounces. That came close to half the amount sold in the first nine months combined!

The renewed interest in 2000-dated Gold Eagles has two causes. First, the mountain of earlier-dated Eagles is largely depleted. As a result, premiums have been rising, bringing prices closer to that of 2000-dated coins.

Second, there is a significant interest in 2000-dated gold coins as a memento of the new millennium. As we approach the holiday season, shoppers are already picking up their gifts. This early-in-the-season increase in demand is prompting retailers and wholesalers to stock up now.

Even with a late surge in sales, all four sizes of Gold Eagles will likely be among the lower mintage issues. Even though a 2000-dated four coin set would now cost you about $10 more than for earlier-date coins, it may develop a higher long-term premium both because of the year and the low mintages.

Gold and Gold Coins

Gold closed today at $264.00, down $6.50 (2.4%) from last month, its lowest close since September 21, 1999.

I attribute the slide overwhelmingly to the strength in the U.S. dollar. In the past four weeks, the Euro has fallen 2.9% against the dollar, the yen is down 0.2%, the Swiss franc fell 3.6%, and the India rupee 1.7%. Compared to non-U. S. currencies, gold spot prices held their own.

Typically, when the spot price drops to a 13-month low as it did in this past week, we see a surge in demand. You also find that premiums will tend to rise. Well, the rise in demand has been tepid thus far, but premiums on almost everything are up over the past few weeks.

As noted above, the shrinking supplies of pre-2000 Gold **Eagles** (4.8%) has led to rising premiums from its previous bargain-basement levels.

In turn, the rising premium for Eagles made other low-premium coins relatively more attractive. As demand for them increased, so did their premiums. Some of the "majors" (i.e. coins with exactly or approximately an ounce of gold that are widely traded), are up $5.00 per ounce relative to spot in the past month! Some smaller coins are up even more.

Even though they all have higher premiums, the same coins still have the lowest premiums: U.S. **American Arts Medallion** (2.4%), Austria **100 Corona** (2.6%), South Africa **Krugerrand** (2.8%), and Mexico **50 Peso** (3.7%). These are all issues out of current production except for the Krugerrand, with only small demand for 2000-dated Krugerrands because they sell for a sizeable premium to earlier dates. Since they are out of production, there are no advertising campaigns sponsored by the producing Mints to stimulate demand. Now they just trade because of price advantage and track records of trading widely in the past.

Among the smaller gold coins, the British **Sovereign** (5.4%), French **20 Franc Roosters** (7.5%), and Swiss **20 Francs** (7.5%) are the best buys. Among them, I prefer the Sovereigns. The other two coins were restruck in later years. For instance, virtually all Roosters that you see are dated 1907-1914, which are coins actually struck in 1921 or between 1951 and 1960. Sovereigns were struck in the year they are dated except for the few struck in India in 1919 bearing the 1918 date.

We continue to see sporadic, slight increases in the prices of **Common-Date U.S. Gold Coins**, even though the spot price of gold has fallen. The further we get past the bottom of a few months ago without any retrenchment, the more likely it is that the recovery in prices will continue.

Better-Date U.S. Gold Coins continue to be very much in demand, with almost nothing available on the wholesale market. Chief Numismatist Allan Beegle picked up a small group of **Mint State-62 1891-S $20.00 Liberties** at the Long Beach Exposition a few weeks ago, and other dealers were practically begging for the opportunity to purchase the coins off of him. The collector appeal is obvious. You can own coins that are dozens or hundreds of times rarer than common-date coins yet pay only 10%, 20% or 50% extra.

Silver and Silver Coins

Silver closed today at $4.77, down eleven cents (2.3%) from four weeks ago. Like gold, silver seems to be in a holding pattern against the U.S. dollar's strength.

Demand for physical silver has increased enough that one of my two indicators for a near-term rise in silver prices has turned positive. When the retail premium for U.S. **90% Silver Coin** (3.1%) is above 2%, wholesale prices are too high for refiners to profitably melt and recycle the coins. With the loss of availability of this form of silver, the inability of supplies from other sources to cover

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demand is magnified.

The other indicator, the premium of the London silver price above New York, is still below the 5-7 cents range where it would become profitable to withdraw silver in New York, refine it to the stricter London standards (.9999 purity vs. .999), and physically ship it to London. However, after several months of no premium and even a discount, the premium has now risen to two cents.

A major jump in the price of silver, to more than $10.00, is long overdue. It is still too early to say if the rising premiums portend a huge move in the next three to six months, but it could happen.

Even though the premium on 90% Coin is higher than a month ago, it is still the lowest price form of physical silver. In addition, it has the greatest divisibility, greatest liquidity, and is the most widely traded form of silver. For all of these reasons, I give it my strongest recommendation for buying silver.

U.S. **40% Silver Coin** (5.9%) and **100, 10, and 1 Ounce Ingots** (4.2-11.5%) are also worth considering. They do have some disadvantages. The 40% Coin takes up a lot of space and weight for the amount of silver it contains. The larger silver ingots have a lot less divisibility than 90% Coin.

I expect the Mint will cut off orders for 2000-dated U.S. **Silver Eagle Dollars** (36.7%) within the next few weeks, so that they can begin making the 2001 coins. Prices and premiums are much more reasonable than earlier this year, and they bear the desirable 2000 date. They are already starting to sell well for holiday gifts. Don't be surprised if there is a supply shortage and higher prices in early December.

While taking inventory a few weeks ago, I noticed that prices for some **U.S. Silver Commemoratives were up 10-20%** over the lows earlier this year. The appreciation seemed to hit the scarcer issues more. Unfortunately, supplies are almost non-existent, hence the price increases.

Common-Date Morgan and Peace Dollars are holding steady while many **Better-Date Morgan and Peace Dollars** have appreciated in the past year. If a dealer is lucky enough to find a better-date dollar, it is almost sold as soon as he buys it. Still, bargains can be found once in a while. Our offer of the **Very Choice Mint State-64 1921-D Morgan Dollars**, the scarcest mint for high-grade Morgan Dollars, is a happy opportunity. See our offer for detail.

The Month

Gold Range	$ 10.50	3.9%
Net Change	-6.50	
Silver Range	.19	3.9%
Net Change	-.11	
Gold/Silver Ratio	55.3	
Net change	-0.1	
Platinum Range	19.00	3.4%
Net Change	+12.00	
Platinum/Gold Ratio	2.18	

Date	Gold	Silver	Platinum
Oct 04	270.50	4.88	563.00
Oct 05	270.50	4.89	572.00
Oct 06	269.25	4.88	571.00
Oct 09	270.00	4.88	570.00
Oct 10	272.25	4.92	569.00
Oct 11	270.50	4.87	572.00
Oct 12	276.50	4.93	575.00
Oct 13	272.50	4.89	574.00
Oct 16	271.75	4.88	566.00
Oct 17	271.25	4.85	563.00
Oct 18	270.50	4.85	568.00
Oct 19	270.00	4.83	582.00
Oct 20	271.75	4.83	580.00
Oct 23	270.25	4.78	575.00
Oct 24	270.25	4.80	564.00
Oct 25	266.25	4.77	569.00
Oct 26	265.00	4.74	567.00
Oct 27	264.50	4.75	565.00
Oct 30	264.50	4.75	565.00
Oct 31	265.00	4.76	575.00
Nov 01	264.00	4.77	575.00

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.

U.S. Mint Gaffe On 2000 Silver Proof Sets

As it has every year, since 1992, the U.S. Mint took orders for a special run of 2000 Proof Sets with the Dime, Quarter, and Half Dollar struck in 90% silver, the same composition as pre-1965 coinage.

This year, the set contains ten coins because of the addition of the Sacagawea "Golden" Dollar. After the initial flurry of orders were accepted, checks deposited, and credit cards accepted.

Production was well along and a nice inventory of finished sets were ready to go by the time the ordering period opened in late September.

But, before any sets were actually shipped, someone noticed a legal glitch. The law authorizing the silver proof sets requires all coins higher than five cents face value to be made of 90% silver. Oops! The Sacagawea Dollar was struck in its original non-silver composition!

Mint officials quickly decided that they were unwilling to strike the dollar in silver, which left only one practical alternative—<u>change the law!</u>

An emergency bill was quickly introduced into Congress. Finding exact status on the bill is all but impossible. This afternoon, one of the Mint's customer service representatives stated that she had heard a rumor that the bill had passed Congress and it was waiting for President Clinton's signature. Once signed, shipments could begin. However, we were told that the earliest that the sets might start going out is two weeks. We will keep you posted.

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