

Liberty's Outlook

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2002 U.S. Elections Are Over. Now What?

P.2 Interest Rate Drop To Reduce Gold Supplies!

Now that the 2002 U.S. elections are over, we can again focus on important matters such as the U.S. economy.

I'm not saying that the federal, state, and local governments and the elections to fill those offices are unimportant.

Instead, I'm saying that the *marginal* differences wrought by the elections will pale in significance compared to the day-in and day-out voting of consumers every time they purchase or opt not to purchase particular goods and services.

Let me give you some examples. Here in Michigan, a Democrat was elected governor, ending several years where the governorship, both legislative chambers, and the state supreme court were controlled by the Republicans.

What that means, come January, is that the Republicans will no longer control the agenda of bills that become law. They will have to get the cooperation of the Democrats to get any of their bills signed into law. This cooperation will likely take the form of getting passage of some Democratic-sponsored bills.

In the greater scheme, the laws that will now be enacted or not passed will differ only in a minor degree from what would have happened anyhow.

Also, because Michigan will

have a Democrat for governor and is a state that cast its electoral votes for Gore in 2000, I suspect that Michigan will have slightly fewer federal tax collections returned by a federal government controlled by the Republicans. But, the spigot will not be turned off altogether or even to a sharp degree.

That is why I emphasize that the marginal differences wrought by the election are not that important.

In contrast, look at the huge impact on the everyday life of consumers wrought by such entrepreneurs such as Sam Walton, Michael Dell, and Bill Gates.

It is the actions of profit-seeking people who have improved our lives much more than all of the politicians put together. Every employee in the private sector and every consumer making a voluntary purchase is contributing to a more prosperous tomorrow for us all.

On the federal level, with the Republicans soon to be in control of the White House and both chambers of Congress, it will be easier for both bad and good legislation to become law.

I suspect that it will be easier for President Bush to push for military action against Iraq and other countries.

And, although it is people and not governments that create prosperity, I anticipate that there will also be more government attempts to "stimulate" the economy by reducing interest rates and increasing the money supply.

Now What?

The U.S. dollar stopped falling and has been treading water for the past few months. U.S. stock markets have come up noticeably from their lows of a couple months ago. Some observers might think that the worst news is behind us and the economic recovery is underway.

Don't count on it. There are several warning signs that the economy may still be stuck in a recession or could even get worse.

Growing unemployment: The official unemployment rate (seasonally adjusted) in the U.S. was 5.4% in October 2001 and 5.75 in October 2002. It had been 5.9% in July and August 2002. Although a superficial analysis might lead one to believe that we passed the worst in the summer and things are getting better, you have to factor in the effect on employment of a slowdown in consumer spending. Already, the number of seasonal employees that companies plan to hire for the holiday season is down from last year.

Slowdown in consumer spending: Consumer spending has been surprisingly strong over the past

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two years as the U.S. stock markets have fallen. Without such demand for housing, autos and trucks, and other durable consumer goods, the economy would have tanked right along with stocks.

Recent surveys of consumer confidence are coming in at record low levels. A manufacturer's representative for several furniture companies told me over the weekend that his industry's sales are looking to be the worst in 30 years! Auto and truck sales in October dropped by 1/3 from year earlier levels.

Consumers slow down their spending when they fear that their incomes will drop, either from losing jobs or from working fewer hours than before. This slow down in demand can become self-fulfilling when it leads factories to reduce production.

Weak economic numbers:

There are many statistics dealing with corporate investment in capital goods, a corporate purchasing index, new home construction, factory capacity utilization, and the like. None of them are giving signs of an economic recovery in progress. In fact, some of the indicators are dismal. The reason they are stuck is because the economy is not recovering from the recession as many so called "experts" had predicted.

I realize that the last paragraph sounds like a circular explanation, but it is close to what has happened. Because the poor economic results did not happen as fast as forecasted, it helped perpetuate continuing poor economic news.

This week, all of the experts seemed to be holding their breath to see if the Federal Reserve System's Federal Open Market Committee (FOMC) would reduce a key interest rate by 0.25%, or by 0.50%, or not at all. Even gold traders were laying low until this news came out.

One question needs to be asked. Why should one small interest rate

decrease of 0.50% make much difference when the 11 interest rate cuts totaling 4.75% since the start of 2001 have left us with an economy that is stagnant at best, and falling into a recession at worst?

Bank and financial institution

woes: Banks and brokerages have been hit with numerous civil suits over their part in promoting stocks a few years ago. As long as the cases remain civil rather than criminal, the defendants have a much better likelihood of survival.

The state of Utah is currently considering criminal action against Goldman Sachs, one of the world's largest brokerage firms. Once criminal charges start to fly, a paper asset meltdown could develop.

Rising inflation: Many people are deluded by small rises in the Consumer Price Index (CPI) into thinking that inflation is insignificant. In reality, the M3 definition of the U.S. money supply has increased by \$1.3 trillion in the past two years, almost four times the increase in the U.S. Gross Domestic Product (only \$350 billion)! Over the same period, all forms of debt in the U.S. have increased by \$2.1 trillion!

Stated another way, it has taken almost a \$4 increase in the money supply and about \$6 in new debt to increase GDP by \$1. How much more of an increase in the money supply will be needed to increase GDP by ten to twenty times as much?

Conclusion: Taken together, I fear a significant likelihood that the U.S. economy will falter over the next few months, no matter what any politicians do. The 0.50% interest rate drop today can be generously interpreted as an acknowledgment of the weakness in the economy. Also, the size of this drop could indicate the desperation of the government to "do something." This scenario offers a great opportunity for you to benefit by owning gold, silver, and rare coins as part of your holdings.

What Would You Rather Own?

In 1913, the average annual wage in

the U.S. was \$633. With gold valued at \$20.67 per ounce at the time, that meant that the average yearly income was 30.6 ounces of gold.

In 2001, the average per capita income in the U.S. was \$22,851. The average gold price was \$271. That works out to earning 84.3 ounces of gold per year. While income in dollars is up 3,500%, income in gold is up only 175%.

One way of looking at these two figures is to say that, since 1913, the purchasing power of the U.S. dollar has been falling 20 times faster than the purchasing power of gold! As more investors realize the risk of holding dollar-denominated assets, demand for precious metals and rare coins will rise.

Two months ago, I made a half-serious and half tongue-in-cheek prediction that gold would reach \$350 by the end of October. It did not. But my point was that there was still a solid possibility that gold could reach this level in the near-term, even if it did not get there by October 31. I stand by that prediction.

Do you want to buy your tangible assets now, or later when they cost more?

Interest Rate Drop To Reduce Gold Supplies!

One result from today's drop in the interest rate is that it reduces the profitability of selling gold on the forward markets. This will give mines even further incentive to reduce current levels of pre-sold gold and to limit new forward sales.

On October 24, Barrick Gold Corporation, one of the world's largest gold mining companies, reported that it had gold production for the third quarter of 1.38 million ounces. Of this amount, 1 million ounces were delivered against pre-sold contracts, reducing its remaining pre-sold position to 16.9 mil-

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lion ounces. That left only 380,000 ounces available for sale in the current quarter. Barrick announced that it plans to continue reducing its forward sales position about a million ounces per quarter through the end of 2003.

While Barrick's action was not predicated on today's interest rate drop, it was definitely influenced by all the prior rate decreases. It is too soon to identify which gold mining companies will commence or accelerate their programs to reduce pre-sold gold contracts, but you can rest assured that the mines now have more incentive to do so.

This anticipated further squeeze on gold supplies can only help push up the price of gold sooner.

Rare Coins Remain Active

In the past month, LCS personnel have attended one national and two local coin shows. Despite evidence of a general consumer spending slowdown, rare coin prices have held firm and demand remains solid.

Here's an example. Among the items on my shopping list for the New Silver Dollar Show in St Louis three weeks ago was a common-date MS-63 \$10.00 Indian that had been certified by the Professional Coin Grading Service. Even though several of the largest dealers had a booth at this show, only two had even any specimens in stock. Both quoted prices several percent higher than I expected.

To give another anecdotal example of price strength, we just took back in a U.S. 1915-S Panama-Pacific Commemorative Gold Dollar in trade towards another coin. The credit we allowed the customer was 23% higher than our selling price to him two years ago. How many stocks in your holdings could match that track record?

Two years ago we recommended purchasing a number of Better-Date Morgan Silver Dollars as being underpriced relative to other issues. One of our top recommendations went to the **Gem Mint State-65**

1878-S Morgan Dollar. Two years ago, we sold this coin at \$200. We simply could not find enough to satisfy demand from our customers.

At the New Silver Dollar Show, I managed to find a half dozen specimens of this date. The price is now up to \$235 and we still cannot find enough to meet demand.

At the local Kalamazoo Numismatic Club show this past weekend, our sales of rare coins to collectors set a multi-year record if not an all-time record. Buyers were picking up \$500 and \$1,000 coins and plunking down cash. Their questions were more "do you have" rather than "how much is it."

At Kalamazoo, key- and semi-key date Buffalo Nickels, Barber Quarters, and Standing Liberty Quarters sold well.

I anticipate that the rare coin market will easily outperform the general U.S. stock market over the next year.

Gold Dinar Coming In 2003

In April I alerted you to the proposal by the Prime Minister of Malaysia to create an international standard gold coin unit called a dinar.

I was concerned that the Islamic connotations of the coin might keep the proposal from going anywhere. But, the plan is moving ahead.

Mahathir Mohamad, the Malaysian Prime Minister, announced October 23 that his government was setting up a committee to study and promote the gold dinar for international trade.

Yesterday, the Malaysian Deputy Finance Minister said that Iran has agreed to use the gold dinar for bilateral business with Malaysia. Other Islamic nations are considering its use. The release of the coin has been set for mid-2003.

If this coin gets off the ground, and that it not assured, I see a significant prospect that it may eventually become *the* preferred form of making international payments, displacing some demand for major world paper currencies. Any wide-

spread use of the gold dinar would also help boost the price of gold.

Silver and Silver Coins

Silver closed today at \$4.47, unchanged from last month (and the month before that). Once again, silver traded over a relatively narrow range, only 22 cents (4.9%) over the past five weeks.

As best as I can ascertain, the silver market is waiting to take a lead from gold. Until gold can break out of its \$310-325 range of the past few months, silver may not do much of anything.

Although the newly mined plus recycled supplies are still falling severely short of industrial demand for physical silver, the impetus for a big jump in the near-term just isn't there. In fact, the fear of demand falling further, if the recession deepens, could lead silver to briefly drop from today's prices.

Supplies of physical silver remain relatively tight, as exemplified by the high premiums for ingots and bullion-priced coins. These trade well above silver value on the wholesale market and are thus not available to refiners to melt down.

U.S. 90% Silver Coin (9.0%), **U.S. 40% Silver Coin** (10.0%), and **100-1 Ounce Ingots** (10.3-14.5%) are down slightly in premiums from last month, but don't read too much into that. I suspect we may be seeing a slight softening in demand as consumers tighten their belts. If the price of gold starts to rise, especially if it breaks through \$330, I would expect to see a quick surge in buying of physical silver. If gold passes \$330, I would expect both higher silver spot prices and higher premiums on physical silver.

Better-Date U.S. Morgan And Peace Silver Dollars, Walking Liberty Half Dollars, Franklin Half Dollars, Standing Liberty Quarters, and attractive Type Coins are in solid demand right now. In addition, there are ready buyers for Mint State Rolls of Dollars and Half Dol-

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lars.

At the St Louis show, I was fortunate to be in the right place at the right time to scoop up a lovely lot of original **Superb Gem Mint State-67 1940 Walking Liberty Half Dollars**. This is the largest group of such high quality Walkers that we had handled in the past two decades. Today's price is a tiny fraction of its one-time peak, which is why collectors love them. See our enclosed flyer for details.

Gold and Gold Coins

Gold finished today at \$317.50, down \$4.00 (1.2%) from five weeks ago. For the month, gold averaged over \$320 for the first time in three years!

October was strange. The quantity of our gold bullion sales transactions declined. But we experienced our highest number of large gold transactions since the 1999 Y2K flurry. As a result, our overall sales to customers in October were up strong from the month before.

Premiums held fairly steady. The low price leaders are still the U.S. **American Arts Medallion** (2.8%), **Austria 100 Corona** (2.9%), and **South Africa Krugerrand** (3.0%).

Among smaller gold coins, the **British Sovereign** (6.0%) continues to be the price leader. Supplies of other lower premium European gold coins like the **Swiss 20 Franc** (7.5%) and the **France 20 Franc Rooster** (7.5%) have tightened, in response to the stronger Euro I believe, but are still available.

Premiums on circulated **Common-Date U.S. \$10 and \$20 Gold Coins** have stayed strong as wholesalers continue to ship coins back to Europe, the opposite direction to the normal flow. Supplies are the tightest we have seen in the past 20 years!

Other Common-Date U.S. Gold Coins have held relatively steady.

Locating **Better-Date U.S. Gold**

The Month

Gold Range	\$11.50	3.6%	
Net Change	-4.00		
Silver Range	.22	4.9%	
Net Change	+0.00		
Gold/Silver Ratio	71.0		
Net change	-0.9		
Platinum Range	32.00	5.6%	
Net Change	+14.00		
Platinum/Gold Ratio	1.83		
Date	Gold	Silver	Platinum
Oct 02	321.50	4.47	567.00
Oct 03	321.50	4.46	560.00
Oct 04	322.00	4.47	558.00
Oct 07	322.00	4.44	557.00
Oct 08	318.25	4.37	567.00
Oct 09	319.75	4.34	576.00
Oct 10	316.50	4.28	570.00
Oct 11	316.25	4.31	578.00
Oct 14	317.75	4.30	578.00
Oct 15	321.75	4.32	578.00
Oct 16	314.00	4.36	587.00
Oct 17	311.75	4.34	583.00
Oct 18	312.75	4.35	584.00
Oct 21	311.00	4.35	575.00
Oct 22	313.00	4.41	577.00
Oct 23	312.00	4.40	575.00
Oct 24	310.50	4.36	580.00
Oct 25	313.25	4.40	587.00
Oct 28	315.25	4.40	587.00
Oct 29	317.50	4.50	589.00
Oct 30	316.50	4.47	587.00
Oct 31	317.75	4.49	574.00
Nov 01	318.75	4.48	579.00
Nov 04	318.25	4.48	575.00
Nov 05	318.25	4.49	581.00
Nov 06	317.50	4.47	581.00

London Silver Market Premium To New York Silver Market = 3¢

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

Coins pretty much requires having connections, a reputation for a reliable fast check, and a bit of luck. You can acquire coins that are many times the rarity of common-date issues, yet pay little more than for the common-dates. That is why collectors snap them up quickly whenever they are lucky enough to find them. Because of our connections, reputation, and some luck, we have a

You Asked Us

From time to time, we share an interesting question received from our customers. Please call or write with your questions.

Q: Was LCS the winner of 2002 Michigan Retailer of the Year Award? *Asked by several customers.*

A: Unfortunately not. As in 1999 and 2000, we just enjoyed the honor of having been one of a handful of nominees. We congratulate Tapper's Diamonds and Fine Jewelry of West Bloomfield, the winner in the category in which LCS was nominated.

lovely group of **Choice Mint State-63 1882 \$10 Liberties** from the St Louis Show that are perfect examples. See our brochure for details.

Although they are not as sensitive to the price of gold, you can find deals in **Ancient and Medieval Gold Coins**. We have two bargain lots from the St Louis Show: **Boji Celtic Gold 1/24 Staters, 300-100 B.C.**, and **Sicily Gold Taris issued by the Norman Kings in the 1100s**. This is the first time in our 31 years in business we have handled either of these coins. Enjoy reviewing our offers.

Gift Giving Ideas

Facing a dismal holiday sales season, retailers are preparing aggressive marketing campaigns to lure gift-buying customers.

While discounts are certainly appealing, a white dress shirt and tie or a set of towels only go so far. We also think that unique, creative, beautiful, long-lasting gifts will remind your loved ones of your thoughtfulness for years to come. Gifts of precious gold, flashy silver, and coins from long ago speak for themselves. Our flyer **Gifts From Around The World And Across The Centuries** gives you 12 excellent ideas. Call for other suggestions.