Liberty's Outlook

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As Supplies Decline—

Gold Hits Highest Prices Since 1988!

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When gold closed in U.S. markets at $428.75 nine days ago, that was its highest close since December 5, 1988!

Gold has shown significant strength in the past month despite efforts by Gordon Brown, the British Chancellor of the Exchequer since 1997 and also Chairman of the International Monetary Fund's (IMF) International Monetary and Financial Committee to talk down the price.

At a meeting of the G-7 (Group of 7 of the world's leading developed nations) finance ministers just over a month ago, Brown attempted to lob another bombshell against gold. He tried to revive a slightly different version of a rejected 1999 IMF proposition where the IMF would revalue its gold holdings (currently over 100 million ounces) from about $50 per ounce up to approximately current market price. The excess value from the revaluation would then be used to forgive debt of heavily indebted nations.

For Brown to just make this proposal was enough to knock down the price of gold by $5.25 when the markets reopened on Monday, October 4. After all, if the IMF is effectively going to release most of the value of its gold holdings onto the world's economies, that increase in supply could put a real stopper on the rising gold prices of the past two years.

However, the state of the real world turns out to be almost the exact opposite of what Brown's proposal threatens to do. Before I go on to explain why, let's review some of the significant events that affected the gold market in 1999.

The Gold Market In 1999

1) If you don't remember, Brown was one of the major architect's of the disastrous Bank of England sale of over half of its gold reserves in a series of auctions that started in 1999.

My description of the Bank of England sales as disastrous refers to how they were conducted. Independent analysts judge that the sales would have realized about $300 million more (about 8%) for the Bank of England had they been handled differently (with the Swiss central bank gold sales of the past five years given as a better example).

To compound the disaster, the foreign exchange assets purchased with the proceeds of the gold sales have lost significant value since acquisition, while the price of gold is currently more than 50% higher than the average price at which the Bank of England sold its gold!

Instead, the sales seemed to be a blatant attempt to drive down the price of gold with no regard to maximizing revenues for the Bank. If knocking down the price of gold was the intent of such auctions, the strategy worked well. However, after the series of Bank of England auctions ended in March 2002, the price of gold quickly began to climb.

2) Another step that hurt gold prices in 1999 was an IMF proposal to revalue its gold holdings to support highly indebted poor nations. The threat of a potentially large quantity of gold being dumped onto the market helped keep down prices for months.

The proposal was ultimately rejected. One reason it was never acted upon is that of the 41 nations that were destined for financial aid under the proposal, 36 were gold producers. In some of these nations, gold exports were the largest source for foreign exchange. Any sharp drop in the price of gold that an IMF sale would have caused would have hurt the domestic economies of the very nations that were supposed to benefit.

3) In September 1999, the Washington Agreement on Gold (WAG) was adopted, formally or informally, by central banks and governments holding approxi-

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mately 85% of the world's official gold holdings. Under the agreement, official annual gold sales were limited to 400 tons (12.86 million ounces) for a five year period. At the time, this Agreement represented a large influx of central bank gold onto the market.

Central banks did meet this quota, largely by British and Swiss sales. However—this huge quantity of gold sales was not enough to cover declining gold supplies from the mines.

Jump Forward To 2004

Aware that the long-term gold shortages were likely to increase after the Swiss finished their sales early in 2005, the WAG was renewed this past summer for another five years. The limit on official gold sales was raised to 500 tons (16.1 million ounces) annually. In effect, the new Agreement was an attempt to encourage higher levels of central bank gold sales.

But—very few nations have enough gold reserves to be able to sell several million ounces of gold under the renewed WAG. The nations with the largest government holdings happen to all be G-7 members—United States, Germany, France, and Italy.

If any of these nations were going to step into the breach to sell their gold reserves, this G-7 meeting in early October was the perfect venue to announce it.

The silence—the absence of any such announcement at this meeting (or at any other time) is a strong sign to me that official gold sales will not only fail to meet the higher levels under the renewed Agreement, they are likely to decline from the former lower levels.

When Brown revealed his latest proposal, the other members of G-7 rejected the idea. Officially the issue is under discussion. But—none of the largest holders of official gold reserves support the program. The U.S. and Canada do not want to hurt their domestic gold industries. Germany, France, and Italy simply do not want to put their economies at risk by reducing gold reserves.

In 1999, governments and central banks had a variety of ways in which they could manipulate downward the price of gold.

Gordon Brown's feeble attempt to knock down gold by pushing for IMF gold sales, without support from other nations, I take as evidence that the ability of governments to manipulate gold prices is coming to an end. After all, if they had a more powerful tactic available, why wasn't it used?

Gold To Reach $500 Soon?

I think Brown's proposal is the last gasp at trying to hold the price of gold below the psychological $430 threshold. It didn't work well.

The very next day after news of his proposal helped push down gold's price by $5.25, gold jumped back up $4.00. Since then it has gone even higher, closing at a 16-year high last week, and even testing $430 during intraday trading on multiple days!

Now that the U.S. elections are behind us, there is less incentive for the U.S. government to try to hold down gold prices. Rising gold prices, like higher oil prices or interest rates, could threaten the reelection prospects of incumbents. For the next year or so, a rising price of gold is not that important a consideration to a politician who doesn't have to face the voters until 2006 or beyond.

If my interpretation that central banks are running out of gold they are willing to liquidate to hold down prices is accurate, more investors will take notice. How? Simply by observing that the new Agreement's higher sales quota is not being filled.

With the evidence of continuing large gold supply shortages, I expect the price of gold to keep testing the $430 level until it finally tops it.

Once gold breeches that level, I don't think there will be significant resistance below $500.

If the governments don't have the desire or the capability to manipulate gold prices downward, short-term traders are not going to sell the market short in their stead.

It is dangerous to make relatively short-term predictions. However, I would not be at all surprised to see gold above $500 by the end of February 2005.

What About Silver?

With silver also experiencing a long-term fundamental supply shortage, a strong move up for gold will also be positive for silver.

Though gold is primarily a financial metal and silver is pretty much an industrial metal, a lot of investors consider them both to be money. If one of the two moves sharply, many investors tend to buy or sell the other metal under the assumption that it will eventually mirror the movement of the first metal. This effect has happened consistently enough that it would be highly likely to happen again.

If gold makes it to $500 by the end of February, I would expect silver to reach at least $10.00.

What probability do I give for gold reaching $500 and silver $10.00 by the end of February? Even though both of those levels would be higher than either metal has reached in the past 20 years, I put it at more than 50% but less than 75%.

Even More Silver Products Under Development

Because the price of silver is so relatively low, researchers are aggressively seeking new industrial applications for the metal.

A major focus for using silver is for anti-bacterial purposes. Silver kills germs by a physical process, which means that bacteria cannot mutate and develop immunity. A relatively new area of research is the use of silver for better hygiene in the processing, packaging, and storage of food.

Walls of facilities can be coated or painted with silver-containing substances. Work tables can now have anti-bacterial surfaces. Packaging materials can incorporate silver compounds to extend the shelf

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life of foods.

In another area, a microprobe with silver nanoparticles is being tested for its ability to detect biohazards before they could be noticed using current technology. Once a laboratory version is workable and cost-effective, researchers expect to then develop a portable version.

The National Aeronautics and Space Administration (NASA) is testing silver-based clothing to cut down on bacteria and odor in the International Space Station. The same fabrics may eventually be used as mattress covers and to get rid of dust mites.

Dow Corning Corporation has introduced a variety of silver inks that can be used in place of wire on electrical components such as printed circuit boards. The inks conduct electricity up to 10 times better than competing products and hold up well in stressful applications.

Before you think that all silver applications are high tech, a British company named James Cropper Plc has released a line of silver-based paper products called Docugard. Their file folders, for instance, are intended for medical applications so that they do not transmit germs from hands and surfaces. Docugard paper fights the growth of staphylococcus, Listeria, E-coli, and salmonella, for instance.

Gold and Gold Coins

Gold finished today at 424.50, up $6.50 (1.6%) from last month.

In the past month or so, it seems that the strongest correlation of precious metals has been the price of oil. If oil prices rise on the commodities exchange, gold and silver have invariably increased that day, and vice versa. As I have previously explained, there is not a direct correlation between oil prices and metals, but there is some connection. Only because gold and silver markets are in long-term fundamental shortages do the rising oil prices seem to have so much impact on them.

There continues to be significant liquidation and purchasing of gold bullion-priced coins and ingots. Because the market is active in both directions, there is little change in premium levels.

The best values to get the most gold for your money continue to be the Austria **100 Corona** (3.5%), South Africa **Krugerrand** (3.7%), and U.S. **American Arts Medallions** (3.7%). Among smaller coins, the British **Sovereign** (7.6%) remains the coin of choice. It is one of the highest volume gold coins traded around the world and has a history of trading at much higher premiums than today. When I purchased my first Sovereigns in 1973, for instance, I paid well over a 50% premium to metal value.

Two months ago, the prices of **High Grade Common-Date U.S. Gold Coins** dipped, which I thought was temporary. It was. Prices rose an average of about 10% in the following month, and are still going up. The MS-64 8-piece Gold Type Set, for instance, is now up more than 15% in the past nine weeks. Even though they are up from September, though, I still like the values of a number of the $1.00 through $10.00 Common-Date U.S. Gold Coins in high grade. Many are still priced at a fraction of their prices from 15 years ago.

Even better than the Common-Date issues are **Better-Date U.S. Gold Coins**, especially those that sell close to the prices of common-date issues. They are so popular with collectors and investors, though, that they are almost impossible to find. If you can pick up a few pieces, don't hesitate.

Sometimes you can find bargains in world gold coins, both interesting collector coins and some issues that can be thought of almost as bullion. This month we came up with two small groups from north of the border. First, we offer some **Choice Proof-63+ 1967 Canada $20.00 Centennial Commemoratives**. These were struck during what I like to call "The Forbidden Era," when it was illegal for Americans to own such coins. It is one of the few gold coins struck anywhere that year. Our other group is **Mint State-62 and –63 1912 Canada $5.00 Gold Coins**. These coins have the same gold content but are far scarcer than the $5.00 Indians struck at the U.S. Mint at the same time—but they sell for a lot less than their American counterparts. See our enclosed flyer for details.

Silver and Silver Coins

Silver closed today at $7.14, down seven cents (1.0%) from in the past four weeks. In the past month, the price has been above $7.00 almost the entire time.

Although silver liquidation (and purchases!) is still stronger than it was this past summer, it has fallen from the surge when silver climbed back up to the $7.00 level. That signals to us that many of those who are possibly interested in selling silver are now sensing that prices may rise further in the near future. As has happened repeatedly in the past, such investors tend to hold out for significantly higher prices before they sell.

The premium on U.S. **90% Silver Coin** (2.4%) is just above the level where refiners could profitably melt it down. Because it is not pure, 90% Coin needs to trade wholesale at a greater discount to its silver value than do pure ingots in order to cover the extra refining costs. If the price of silver shoots up, I would expect the premium to decline from today's level, so that refiners could again profitably melt these coins. If (when) we reach that point, there will be a temporary surge in silver supplies that will tend to stall further price rises.

This same premium decline will affect all forms of physical silver, so don't avoid 90% Coin because of the possible drop. After all, if the spot price of silver jumps 20% and 90% coin is up only 18%, you are still better off than if you didn't buy silver at all.

Although 90% Coin has the best liquidity and divisibility of the most popular forms of physical silver, **100,**

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10, and 1 Oz Ingots (5.6-6.3%) are also worth considering for those with severe storage space limitations..

Common-date Mint State Morgan and Peace Dollars continue their steady rise. It is getting almost impossible to locate any quantity of such coins as Mint State rolls of Franklin Half Dollars, 1964 Kennedy Half Dollars, and high-grade individual Walking Liberty Half Dollars and Morgan and Peace Dollars.

Better-Date Morgan and Peace Dollars seem to be rising faster, probably because supplies are just not keeping up with demand.

We did pull off one coup in the past month. Five months ago we got a super purchase on a small hoard of the **1988 Canada Titanic Silver Maple Leaf,** and passed extraordinary savings on to you. They sold out fast. We had the opportunity to acquire one final group at a price so reasonable that we are offering them at the same price as we did in the summer when the price of silver was lower. But there will be no more when these are gone. Please see our offer.

The Month

Gold Range	$15.75	3.8%
Net Change	+ 6.50	
Silver Range	.47	6.5%
Net Change	-.07	
Gold/Silver Ratio	59.5	
Net change	+1.5	
Platinum Range	26.00	3.1%
Net Change	-16.00	
Platinum/Gold Ratio	1.95	

Date	Gold	Silver	Platinum
Oct 06	418.00	7.21	843.00
Oct 07	418.00	7.18	835.00
Oct 08	423.00	7.26	840.00
Oct 11	422.00	7.22	846.00
Oct 12	415.00	7.03	840.00
Oct 13	413.00	6.88	832.00
Oct 14	418.00	7.03	840.00
Oct 15	418.50	7.09	840.00
Oct 18	416.50	6.97	838.00
Oct 19	420.50	7.17	838.00
Oct 20	423.50	7.32	846.00
Oct 21	424.00	7.29	846.00
Oct 22	424.25	7.31	842.00
Oct 25	428.75	7.35	851.00
Oct 26	426.50	7.32	843.00
Oct 27	424.50	7.19	835.00
Oct 28	424.75	7.17	829.00
Oct 29	428.25	7.27	832.00
Nov 01	427.00	7.31	830.00
Nov 02	420.00	7.01	825.00
Nov 03	424.50	7.14	827.00

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.

LCS Earns "Honorable Mention" For 2004 Michigan Retailer Of The Year

LCS was honored with its fourth nomination for Michigan Retailer of the Year. Once again, LCS didn't win. However, the judges were impressed enough by LCS's "Cans For Quarters" Foodraiser for the benefit of the Greater Lansing Food Bank earlier this year, that LCS was invited to the awards ceremony for a special mention.

In the course of the speeches made at the awards luncheon, it was revealed that this year's winners had all received special mentions the year before and that, even though there was no formal recognition as such, that LCS and the two companies in other sales categories that were similarly mentioned were the "runners-up" for this year's award.

In describing how Michigan retailers support their communities, Adela Uchida, the Mistress of Ceremonies and a news anchor for the NBC affiliate in Lansing, said, "when the Michigan Quarter debuted earlier this year, Heller's 'Cans For Quarters' Food Drive generated almost 6,000 pounds of food and about $6,500 in cash donations to the Greater Lansing Food Bank, in exchange for 20,000 Michigan quarters donated by LCS. Heller's program has been replicated here and by communities in Michigan and as far away as Texas."

The release of the Michigan Quarter was a once in a lifetime opportunity to do something so special. Stay tuned to see if we get another nomination for another project next year.

Coin Bears For Education Debuts

After the Statehood Quarters debuted in 1999, a company began marketing a series of teddy bears to honor each of the states, with a corresponding state quarter on display on the bottom of one foot.

At LCS, we normally don't get into such merchandise. However, this past summer Store Manager Bob Sweet convinced us to try a quantity of the Michigan Quarter Bear. We hoped that they would sell out by year end.

It turns out that customers love them! Without any promotion other than sitting on display in our store, they are selling everyday. A couple months ago, we placed a second order, adding some of the Sacagawea Dollar bears and both of the Lewis and Clark Nickel Bears.

The bears are selling so well that we anticipate that they would be among the best-selling holiday gifts in the Lansing area this season.

With such popular products, LCS is launching a "Coin Bears For Education" fundraiser in our store. For each bear purchased by a retail customer through December 24, LCS will donate $2.00 to the school of the buyer's choice.

We placed a third order for Michigan Quarter Bears to have enough for this program, only to find out later that supplies across the nation are exhausted after we received only about 15% of our latest order.

Our original plan was to focus on the Michigan Quarter Bear. But, with the supply limitation, we expanded the program to include the sale of any of the four bears. If you are in the Lansing area, please stop by our store to check out this cuddly way to enjoy coin collecting.

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