Liberty's Outlook

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Silver Up 16%, Gold Up Near 10% In Past Month!

With U.S. elections over soon, gloomy economic news is starting to be reported. Look for even higher gold and silver prices by year end!

Today, the Institute for Supply Management (ISM) released their monthly index of U.S. factory activity.

For October, the index of national factory activity fell to 51.2 from 52.9 in September. A Reuters survey of economists had produced a median forecast of 53 for October.

This index now stands at its lowest level since June 2003.

In response to this announcement, Richard Iley, senior economist at BNP Partibas in New York said, "The broader economy is slowing and slowing sharply."

This statistic confirms recent reports issued by the Dallas and Richmond Federal Reserve Banks and yesterday's Chicago Purchasing Management business barometer showing unexpected and significant declines in manufacturing activity in the U.S.

The ISM also reported the October prices paid index at 47.0, a drop from 61.0 in September, and the lowest level since February 2002. This index measures inflationary pressure in the factory sector of the economy.

The ISM new orders index, and indicator of future growth, dropped from 54.2 in September to 52.1 in October.

Much of the decline in the manufacturing sector is being blamed on the declining U.S. real estate market.

A fall in real estate values has two major effects. First, the number of jobs for realtors, appraisers, home builders, and real estate financial people is dropping.

Second, consumers who are borrowing against the value of their real estate to finance their spending habits now have less potential debt they can access.

Both of these factors contribute to falling consumer demand, which spreads the impact of the real estate market decline across the entire economy.

A decline in the U.S. economy isn't the only factor pointing toward a drop in the value of the U.S. dollar in the coming months. Foreign central banks are becoming more vocal about trying to reduce the amount of U.S. dollars held in their reserves. An official of the Russian central bank recently stated that they were looking at converting part of their existing reserves (meaning U.S. dollars) in Japanese yen.

Two top Chinese officials admitted that they are investigating the possibility of reducing their holdings of U.S. dollars and U.S. Treasury debt. If you interpret that statement correctly, that almost certainly means that the Chinese central bank has already been unloading U.S. dollars, which had made up about 70% of its $1 *trillion* in reserves.

In mid-October, Australia's Treasurer, Peter Costello, made a public request that Asian central banks who are

2006 Year To Date Results

As of October 31, 2006

Precious Metals	
Silver	+38.4%
Palladium	+23.0%
Gold	+16.7%
Platinum	+10.4%
US Dollar vs Foreign Currencies	
Thailand Baht	-10.5%
Great Britain Pound	-9.8%
Brazil Real	-8.3%
Indonesia Rupiah	-7.3%
Euro	-7.2%
South Korea Won	-6.7%
Singapore Dollar	-6.4%
Peru New Soles	-6.1%
Philippines Peso	-5.7%
Australia Dollar	-5.3%
Switzerland Franc	-5.3%
Canada Dollar	-3.4%
Malaysia Ringitt	-3.4%
China Yuan	-2.4%
Japan Yen	-0.8%
India Rupee	-0.3%
Taiwan Dollar	+1.2%
Mexico Peso	+1.2%
Chile Peso	+2.3%
New Zealand Dollar	+2.3%
South Africa Rand	+16.4%
Stock Market Indices	
Frankfurt Xetra DAX	+15.9%
Russell 2000	+13.9%
Dow Jones Industrial Avg	+12.7%
S&P 500	+10.4%
London FT 100	+9.1%
NASDAQ	+7.3%
Tokyo Nikkei 225	+1.8%
Numismatic Coins	
US MS-63 $20 St Gaudens	+6.3%
US MS-63 $20 Liberty	+2.5%
US MS-65 Morgan Dollar	+0.0%

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planning to dump U.S. dollars announce their plans before they begin to do so to allow for "an orderly adjustment."

After the elections next Tuesday, politicians will have some breathing time before the 2008 elections. Look for all the "unusual activities", which I call market manipulations, of the past few months to largely cease.

For instance, one analyst last week detailed how over 96% of the 1,200 point rise of the Dow Jones Industrial Average (DJIA) over the past three months occurred on only nine specific days. When he examined trading activity on those nine days, he found that the increases on eight of those days were almost entirely attributable to short-sellers covering their positions, and not an influx of demand from investors. This analyst noted that it would be relatively easy for someone to manipulate a market for one day to cause a spurt in short-covering, where it would be almost impossible to manipulate a general widespread rise in overall investor demand.

I think it highly likely that whoever is behind these "one-day" miracle rises will not need to keep doing them after the elections.

As hundreds of billions of U.S. dollars and dollar-denominated debt flows back to this country, I expect the value of the U.S. currency to drop significantly. A drop of only 10% over the next year would be the best to hope for. I really expect a decline on the order of 20-35% by the end of 2007.

And as the value of the dollar drops, the price of precious metals and rare coins will soar, even if all they do is hold their value against other currencies.

At least one major investment house recently forecast gold to reach $700 by the end of 2006, and sees it topping $850 in 2007. Just yesterday, Paul Walker, the CEO of GFMS Ltd., probably the world's largest precious metals consultancy, said that gold may reach $700 by year end and might surpass $850 in 2007.

When two such experts, that tend to be extremely conservative in their forecasts of higher gold prices, are talking like this, that makes me all the more comfortable in the projection at the beginning of this year that gold might reach $800 by the end of 2006.

A Contrary View

The most contrary bit of news I have seen in the past month is a report by Jessica Cross, a world renowned gold analyst. She thinks that gold will settle in the $500s next year. The main argument she presents is that jewelry demand has dropped with higher prices. Since the overwhelming application for gold is to be used in jewelry, this argument could have merit.

Key components to her prediction are that 1) the demand for gold in the exchange-traded funds (ETFs) will fall by more than 25% from current levels, 2) that the gold mines will reduce the rate by which they are closing out their pre-sold gold contracts by about 50% from current levels, and 3) that new mine production will rise more than other forecasters are projecting. If one or more of these supports are not valid, then her thesis that gold will decline next year becomes weak.

Her main contention, that jewelry sales will stay down, may turn out to be off the mark. While jewelry sales started to decline in the fourth quarter of 2005, as prices were taking off, there have been recent signs that jewelry demand in India, the world's largest gold consuming nation has started to rise again.

As for her other projections, I think all of them are highly unlikely. The exchange traded funds have continued to sell gold at a steady pace, almost all to strong-hands long-term investors such as pension funds. In 2006, these funds have sold gold at an annual rate of 16 million ounces, with the rate increasing from year to year. These funds are not used by short-term traders. By making it more convenient for a wider range of investors to own gold (as is the case with the silver ETFs), they have expanded the investment market for gold. I cannot think of any reason why a multi-year trend would suddenly reverse for no reason.

As for the mines reducing their pre-sold ("hedged") gold positions, today's higher prices—including prices that might only be in the $500s—are magnifying the pressure on the mines to reduce these positions, as it is now holding back the profitability. Barrick, the company with the largest pre-sold position at 9.5 million ounces, is still aggressively reducing their position according to a recent press release. Here again, I don't know how the mining industry could slow down reducing their pre-paid contracts by half next year.

As for the increase in mine output, I think Cross is too optimistic. As the president of Newmont recently said, it is now taking longer to bring new sites into production. As one example, he said that obtaining government permits used to take about six months and now it takes six years. Other analysts concur that mine output will increase slightly in 2007, after declining almost every year since 2000, but not on the scale that Cross expects.

There is every possibility the Cross could be wrong on all four of her predictions. Ordinarily, I would not expect someone of her experience and network of contacts to seem to be so far out of the loop. However, you have to consider he track record. She was the prime analyst of a report a few years ago on the amount of official gold that was out on lease. Her estimate was that 15-25% off all central bank and other official gold holdings were out on loan. At the same time, non-mainstream analysts (such as Frank Veneroso) were figuring that 50-75% of all central bank "holdings" were out on lease. All the evidence that has since come out has supported the estimates of the other analysts, not Cross.

Cross's research seems to have consistently supported the idea that gold was in greater supply than later proved to be true. Perhaps she was stuck in this rut when she made her price projections for 2007.

A Mysterious Resignation

Earlier this year, the New York Mercantile Exchange (NYMEX), owner of the COMEX, another commodity exchange in New York, hired Jerome Bailey to serve as Chief Operating Officer and Chief Financial Officer. NYMEX is preparing to take itself public, with the Initial Public Offering (IPO) now planned for around Thanksgiving. As I understand it, the main reason Bailey was hired was because his impressive resume as COO or CFO at several multinational firms would help with the transition from a

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private to public firm.

Bailey resigned suddenly about ten days ago.

NYMEX reported to the Securities and Exchange Commission (SEC) that they have paid Bailey $500,000 in return for an agreement by Bailey not to discuss the reasons for his resignation.

It is highly unusual for a top executive of a company to depart on the eve of an IPO. Such an event might scare potential investors that there might be something wrong, and that they should avoid purchasing the company's shares.

In the absence of hard information, one can only speculate the reasons why Bailey resigned.

One possibility, and I have to emphasize that this is only speculation, is that Bailey looked at the distorted Comex silver market and bailed out to avoid any legal liability if (maybe it would be more accurate to say "when") this market crashes.

For years, the Comex has reported the short positions of the "four of fewer largest short traders" as one figure. This combined short position has been getting larger, even as the price of silver has increased, possibly indicating that these traders are literally unable to extricate themselves. By the latest reports, these four or fewer firms are short more than 200 million ounces of silver, more than double the amount of silver in Comex warehouses, even ignoring all the silver owed to those holding Comex long silver contracts!

The distortion in the Comex silver market is even larger than that which occurred in the copper market where the regulating government agency, the Commodity Futures Trading Corporation (CFTC) intervened.

Despite repeated inquiries the CFTC has stonewalled any investigation into the Comex silver market. Recently, similar requests have been sent to the Securities and Exchange Commission (SEC). Apparently, the SEC is sending replies that they will investigate the matter.

If these short traders had to make good on their short positions, it would cost them several billion dollars as the price of silver skyrocketed. If they defaulted, the Comex could potentially be liable for the losses, which could destroy the value of the shares of NYMEX. If you can imagine the scope of potential lawsuits brought by new investors who take a bath after being misled by the prospectus issued by NYMEX for its initial public offering, that might be reason enough for Bailey to want to jump ship as quickly as he could.

Why Are Rare Coins Lagging Behind?

If you look at the table on page one, you would notice that not only has the U.S. dollar generally performed poorly thus far in 2006, but so have MS-63 $20.00 St Gaudens and Liberties and MS-65 Morgan Dollars.

These coins have not kept up with the rise of gold and silver this year. Although they had performed satisfactorily earlier this year, they have not done well for the past four months.

I believe the explanation is all the funds soaked up by investors and collectors jumping in to purchase the new 24 karat one-ounce American Gold Buffaloes that debuted in June.

Already, over 500,000 uncirculated and proof coins have sold, soaking up more than $350 million that otherwise would have gone into other purchases. Many collectors have traded in commonly-available coins such and Saints, $20 Liberties, and Morgan Dollars to pay for their purchase of the Buffaloes. As a result, the supply of such collector coins increased while the demand dipped. This phenomenon largely affected generic (or "Blue Chip") coins which are available in relatively large quantities. Collectors may have slowed their purchases of rarer coins for a time, but they weren't being liquidated to pay for Buffaloes.

The Mint sold over 215,000 uncirculated Buffaloes in the first six weeks, but only 21,000 in the month of October. Those who were eager to acquire these coins have now mostly done so.

I expect the main Buffalo stampede is over, though I anticipate there will be a smaller rush early next year when the fractional coins debut.

At this point, I think generic U.S. coins are past their low point. Prices for several have been climbing in the past few weeks. They may have lagged for the summer, but I expect they will catch up over the next six months.

A Plague On All Politicians

Some readers did not like my descriptions in last month's newsletter, detailing ways that politicians were benefiting from suspiciously timed events that I called market manipulation. As it happens that most of these occurrences would tend to help Republicans maintain political power, some wondered if I were personally anti-Republican.

In a way I am, but only because it is the Republicans that have current power in the executive and legislative branches of the federal government. I have knocked the same things when the reins were all in the hands of the Democrats or were shared between the parties.

In my judgment, what has made America great and wealthy is the innovations wrought by the private sector accompanied by the relative absence of government interference. It is the people that made this country great, created jobs, solved problems, reduced poverty, and so forth. To the extent that government has tried to do this, it has failed to match the caliber of results of the private sector and usually at a far higher cost in taxes, inflation, and the loss of rights.

Both of my parents were career government employees who were productive and I have a number of relatives so employed, but that still doesn't change my wish that all politicians would just get out of the way.

Incidentally, a lot is being made over whether the Democrats will pick up enough seats in one or both chambers of Congress to become the majority party. I don't think it will matter that much. I predict that whichever party ends up with a majority in each chamber will have a slim enough edges that they will be forced to work with the other party to get legislation passed.

Gold and Gold Coins

Gold settled today at $616.50, up $54.50 (9.7%) from four weeks ago. Gold failed to reach and hold over $600 two weeks ago. Now that gold has settled above $600 for three consecutive days, there is a good likelihood that it can stay above that thresh-

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old.

There has been moderate gold activity in the past month. Volume of the U.S. **American** Buffalo (5.6%) has fallen sharply and sales of American **Eagles** (5.2%) are almost at a standstill. Most of the demand has been for the lower premium coins such as the Austria **100 Corona** (2.9%), South Africa **Krugerrand** (2.9%), U.S. **American Arts Medallion** (3.0%), and even Mexico **50 Peso** (3.0%).

High-grade Mint State Common-Date U.S. Gold Coins have fallen over the past few months. They now appear poised to turn around. Prices for many MS-62 and MS-63 coins have actually increased over last month, while most MS-64 and MS-65 issues are stable to down slightly. They are all selling for a fraction of their prices at the last major market peak in 1989, which is why I highly recommend several of these coins now.

As much as I like the value of many High-Grade Common-Date U.S. Gold Coins, I really get excited by the values of many **Better-Date U.S. Gold Coins.** With patience, you acquire coins with many times the rarity of the common-dates, yet only pay a bit more than you would for the common issues.

We have received several inquires asking if mintages of **Fractional American Eagles** might be low enough to warrant a speculation for numismatic appreciation. It turns out that initial sales of these coins were so high that they are not likely to enjoy such appreciation, even though sales have been limited over the past few months.

That said, however, the Mint is planning to issued Fractional Eagles and Buffaloes in 2007. I think there will be so much demand for the debut of the smaller size Buffaloes, that demand for the Eagles may end be tiny. If you had spare funds, you might want to take a flyer on 2007-dated Fractional Eagles

Even though the U.S. dollar has been falling against currencies like the British pound and the Euro, it is still possible to occasionally find bargains in **Mint State World Gold Coins.** This month's offer of **A Trio Of Mint State World Gold Coins From The Late 1800s And Early 1900s** is a perfect example. P.S.—don't tell anybody, but these coins also look great as a gift in a bezel.

The Month

Gold Range	54.50	9.7%
Net Change	+54.50	
Silver Range	1.72	16.1%
Net Change	+1.72	
Gold/Silver Ratio		49.6
Net change		-2.9
Platinum Range	34.00	3.2%
Net Change	+17.00	
Platinum/Gold Ratio		1.76

Date	Gold	Silver	Platinum
Oct 04	562.00	10.70	1,068.00
Oct 05	571.00	10.98	1,071.00
Oct 06	572.25	11.08	1,066.00
Oct 09	578.25	11.33	1,080.00
Oct 10	572.00	11.13	1,060.00
Oct 11	572.25	11.25	1,057.00
Oct 12	576.25	11.30	1,059.00
Oct 13	588.50	11.59	1,068.00
Oct 16	594.50	11.82	1,077.00
Oct 17	589.75	11.70	1,069.00
Oct 18	589.00	11.74	1,076.00
Oct 19	599.00	12.07	1,083.00
Oct 20	593.00	11.89	1,070.00
Oct 23	579.75	11.60	1,063.00
Oct 24	584.00	11.78	1,051.00
Oct 25	587.50	11.82	1,054.00
Oct 26	596.75	12.17	1,070.00
Oct 27	598.00	12.01	1,067.00
Oct 30	604.50	12.19	1,080.00
Oct 31	604.00	12.21	1,073.00
Nov 01	616.50	12.42	1,085.00

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

Gold, silver and platinum quotes are working spots at 1:45 EST/EDT each day, quoted in U.S. dollars per troy ounce.

Silver and Silver Coins

Silver finished today at 12.42, a huge rise of $1.72 (16.1%) from last month.

The silver exchange traded fund (symbol SLV on the American Stock Exchange) sponsored by Barclay's Bank now has about 105 million ounces of silver held of its original authorization of 130 million ounces. On October 2, it filed an application to raise the limit to 320 million ounces.

Investors have jumped to invest in silver through the ETF far faster and in larger quantities than expected. As with the gold ETFs, this represents an outright expansion in investor silver demand. If the application is approved and then becomes sold out, that would absorb 30-50% of all the available physical silver in the world. Prices would be bound to jump sharply from today's levels.

Perhaps of even greater impact on the price of silver is what would happen if the SEC investigates the Comex silver market. If this were done and the investigation became public knowledge, it is entirely possible that the price of silver could double in the space of a few days. Even reach $50 quickly is not out of the question. Because it is a much smaller market and more volatile, I recommend that as much as two-thirds of your hard assets be allocated toward silver and maybe only one-third to gold.

We have both bought and sold a sizeable quantity of silver over the past month. As a consequence of higher prices, premiums have fallen. U.S. **90% Silver Coin** (0.7%) remains my recommended form of owning physical silver. It is the most liquid, has high divisibility, and is the most widely traded form. The premium on **100 Ounce Ingots** (4.0%) has dropped more than 90% Coin in the past month, but it still costs more than 40 cents per ounce extra to purchase silver in that form.

Demand for nice silver collector coins remains strong. So many coins are selling for a fraction of their prices of the mid-1989 peak that there are a number of great values out there today.

We were fortunate to pick up two such deals over the past month. We offer **Gem Mint State-65 1925 Stone Mountain Half Dollars** at a price that is more than 88% lower than in was in June, 1989. You also have the opportunity to acquire **Mint State Rolls of 1888 Morgan Silver Dollars** for the same price as the more common 1881-S rolls. The 1888 date is considered common, but it is one of the rarest Morgans you can find at the common-date price.

We also offer an interest selection of **Beautiful Gifts Of Enduring Value** for your gift-giving consideration.

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