# Liberty's Outlook

Volume 13 Issue 11 Liberty Coin Service's Monthly Review of Precious Metals and Numismatics October 31, 2007

## As Central Bank Gold Price Suppression Conspiracy Falls Apart—

# Precious Metals Prices Soar!

## U.S. Dollar Falls To Record Low—Further Declines Expected
## Will Gold Reach $1,300 And Silver $22 By April 2008?

There has been a flurry of revelations and new developments in the past month that just about all point to the falling value of currencies in general and the U.S. dollar in particular.

The prices of gold and silver have climbed significantly as a result.

With only limited space in this newsletter, I can only cover some of the items and not go into the depth that they deserve. But, uniformly, they lead me to the conclusions that:

The past coordinated efforts among a number of central banks, international agencies, and their partner bullion banks to manipulate the price of gold downward are becoming more public knowledge.

More parties to this conspiracy are publicly acknowledging that this conspiracy existed and that they took part in it.

Now, instead of discussing whether there had been a major gold price suppression conspiracy, the questions focus on how widespread the efforts were.

Financial reporting standards for central banks and governments are changing to increase the disclosure of the extent of gold leases and swap activity.

At least some of the bullion bank partners in this manipulation are starting to book huge losses as they close out some of their trading positions taken to participate in the conspiracy.

As the general public realizes that the price of gold today is as low as it is because of extent of the manipulation efforts, they will also comprehend that the price of gold today would have been at far higher levels if there had been no suppression activity.

The current lukewarm investor sentiment towards precious metals is almost certain to heat up. As more investors start buying precious metals, prices will rise sharply from current levels.

Here are some of the recent developments that lead me to these conclusions.

### News And Information You May Have Missed

**1)** When bureaucrats have to reveal something they would prefer remain unknown and obscure, they can become experts at burying the disclosure in the middle of lengthy reports. Sometimes, it takes a while before anyone catches on.

For example, on May 14 the U.S. Treasury's weekly report of the U.S. International Reserve Position changed the description of the U.S. Gold Reserve of 261.499 million ounces to "including gold deposits, and, if appropriate, gold swapped." It was not widely reported until October that this represents an admission by the U.S. Treasury that some of this gold is either no longer owned by the U.S. or that some of it has been loaned to other parties! It is almost certain that some of the U.S. gold reserves have been removed from the vaults, one way or another!

**2)** On September 24, final oral arguments were heard before a Federal judge in New York for the class action settlement between brokerage giant Morgan Stanley and 22,000 of its clients. Without admitting any wrongdoing, Morgan Stanley agreed to pay several million dollars (which will likely go mostly to the attorneys) and to revise its precious metals storage program.

The lawsuit arose from Morgan Stanley's silver storage program. Customers paid fees to Morgan Stanley for storing physical silver in its vaults. One customer contacted Morgan Stanley to request the serial numbers of the 1,000 ounce silver ingots that were supposedly being held in storage for

### 2007 Year To Date Results

Through October 30, 2007

| | |
|---|---|
| *Precious Metals* | |
| Platinum | +26.4% |
| Gold | +23.5% |
| Silver | +11.2% |
| Palladium | +10.5% |
| *Numismatics* | |
| MS-63 $20.00 Liberty | +24.3% |
| MS-63 $20.00 St Gaudens | +23.5% |
| MS-65 Morgan Dollar | -3.3% |
| *US Dollar vs Foreign Currencies* | |
| Japan Yen | -3.6% |
| China Yuan | -4.3% |
| Switzerland Franc | -4.9% |
| Great Britain Pound | -5.3% |
| Euro | -8.6% |
| India Rupee | -10.9% |
| Brazil Real | -18.0% |
| Canada Dollar | -18.3% |
| U.S. Dollar Index 76.775 | -8.3% |
| *US and World Stock Market Indices* | |
| Frankfurt Xetra DAX | +20.9% |
| NASDAQ | +16.6% |
| Dow Jones Ind Average | +10.7% |
| S&P 500 | +7.9% |
| London FT 100 | +7.0% |
| Russell 2000 | +3.6% |
| Tokyo Nikkei 225 | -3.3% |
| *Intrinsic Metal Value Of U.S. Coins* | |
| Lincoln Cent 1959-1982 | 2.32¢ |
| Lincoln Cent 1982-date | 0.73¢ |
| Jefferson Nickel-non-silver | 6.75¢ |
| Roosevelt Dime 1965-date | 3.06¢ |
| Wash Quarter 1965-date | 7.65¢ |
| Kenn Half Doll 1971-date | 15.31¢ |

## Inside this issue:

*(Continued from page 1)*
him.

When Morgan Stanley declined to provide the serial numbers (each of these bars is marked with a unique serial number, a purity marking, a manufacturer's hallmark, and weight), the customer retained an attorney. The resulting class-action lawsuit revealed that Morgan Stanley did not have any physical silver in its vaults. Instead, it had paper contracts for potential delivery of silver. Yet, the company collected fees for a service it claimed to be providing, but did not. One of the defenses asserted by Morgan Stanley was that other brokers engaged in the same deception.

**3)** In October 1992, The Quantum Fund earned $1.1 billion as it "broke the Bank of England" over the Bank's attempt to distort the value of the British Pound. One of the major partners in this fund (the most famous is George Soros) is commodity expert James Rogers. At a meeting in Amsterdam on October 23, Rogers said he is shifting all of his assets out of the U.S. dollar and is buying the Chinese yuan. He said, "I'm in the process of—I hope in the next few months—getting all my assets out of U.S. dollars. I'm that pessimistic about what's happening in the U.S." He later predicted that the Chinese yuan will quadruple in the next decade versus the U.S. dollar. Rogers also said he is holding commodities such as platinum, gold, silver, and palladium.

**4)** In a recent video interview by a reporter from the Beijing office of London's *Financial Times*, Rogers said that the dollar may temporarily rise for a short time because "everyone" is now aware and fearful about the dollar's decline.

**5)** Three days ago, the board of directors of Merrill Lynch, one of the world's largest brokerages fired its chief executive officer (well, technically he was told to submit his resignation) after the firm incurred losses of about $12 billion from sub-prime mortgages, about $8 billion higher than he had originally stated to the board. Although my sources passed on this information to me two days ago, it did not appear in *The Wall Street Journal* until today's issue. Overall, losses from the sub-prime mortgage problems are totaling much higher than the $50 billion originally projected by Credit Suisse or the $100 billion estimated by Federal Reserve Chair Ben Bernanke.

**6)** Two days ago, Bank of America announced that it was closing its base and precious metals trading operations in London and New York and would be closing out their trading positions within two weeks. Bank of America had jumped into this market in early 2006 by hiring away a team of traders from HSBC. The decision was made after the unit sustained losses in the third quarter.

It is difficult for me to fathom how any metals trading operation could lose money when trading volumes are increasing, but they did. It would be like a stock broker saying that even though stock indices were at record levels and they were handling record volumes of trades, they were going to stop operations because they were losing money. There is probably more to this story that may never be publicly revealed, including the possibility that they were trying to trade in concert with others trying to suppress gold prices and ended up taking huge losses as gold prices continued to rise.

**7)** Goldman Sachs, a major broker frequently identified as one of the bullion bank partners in the gold price manipulation conspiracy, made significant reductions in its gold short positions on the Tokyo TOCOM last Friday and early this week. Their net short position there has dropped to the lowest level since before 2006. Several other major bullion banks and brokers were also reducing their short positions on the TOCOM, though on a smaller scale.

This move could actually be the most significant of the past month. It may be a sign that the participants in the gold manipulation may be abandoning the short positions they took to affect the price suppression. To do so, they would have the effect of reducing supply and increasing demand, which would put more pressure for higher gold prices.

**8)** Caught between the decline in the value of the U.S. dollar and the decline in U.S. interest rates, finance ministers and central bankers from oil-rich Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates met in Saudi Arabia over last weekend. These six countries are negotiating a timetable to introduce a common regional currency. All but Kuwait currently peg their currency value to the U.S. dollar (Kuwait had done so, but switched to a basket of world currencies five months ago), but are now letting them appreciate. These nations' central banks are major buyers and holders of U.S. Treasury debt. The decline in the dollar along with falling interest rates may spur them to become more aggressive at dumping the dollar.

**9)** The price of oil has recently hit all-time high levels. Frequently, though not always, higher oil prices have brought more funds to oil-producing nations, which typically use a significant percentage of the revenues to buy gold.

At a conference in London two days ago, the president of the Organization of Petroleum Exporting Countries (OPEC) said, "the market is increasingly driven by forces beyond OPEC's control."

Curiously, Goldman Sachs just released several commodity sell advisories on Monday. The firm is influential enough that oil, gold, silver, platinum, and other prices dipped yesterday.

**10)** The International Monetary Fund (IMF) has come out with its latest standards for financial reporting by governments and central banks. Compliance with these standards is voluntary and scheduled to take effect in 2008. Buried in the middle of almost 200 pages of "bureaucratese" is a call to change the way that gold holdings are ported. Instead of one single asset called gold, the central banks and governments are asked to disclose just how much gold is physically in their possession, how much is out on lease, and how much is committed to swaps.

This change in reporting may have been prompted by an embarrassment two years ago. Russia announced that it intended to double its central bank holdings of gold from 500 to 1,000 tons, then later revealed that it only had about 125 tons physically in its vaults because the rest was out on lease—but reported as being in the vaults to comply with IMF requirements at the time!

I expect at least some central banks and governments will start disclosing this detailed information next year, partly because compliance with the reporting requirements may be a condition of receiving funding from the IMF. Other nations may comply because non-disclosure might suggest that the government or central bank was trying to hide negative news.

I expect that any significant disclosure of the extent of official gold holdings out on lease or swaps would cause the price of gold to explode upward.

Especially important would be if the U.S. Treasury were to reveal the extent of its gold lease and swap operations. It is entirely possible that more than 100 million of the 261 million ounces of reported of U.S. gold reserves may be gone!

If the U.S. Treasury does not voluntarily disclose such information next year, the Gold Anti-Trust Action Committee (GATA is already preparing a Freedom of Information Act request to obtain these figures. If the U.S. Treasury were to still decline to reveal this data, GATA is already preparing a lawsuit to force disclosure. Even if the U.S. Treasury were to succeed in delaying or avoiding the revelation of the amounts, the publicity might well affect the Treasury's financial posture.

Along with the signs of possible bailouts of the gold market short positions by Goldman Sachs and other bullion banks, this could be the other most important news that could spark higher precious metals prices in the coming year.

**11)** Today, Harmony Gold Mining Company, Ltd, the world's fifth largest gold min-

(Continued from page 2)
ing company, reported a loss for the third quarter and announced the prospects for the near future did not look very good. Compared to the same quarter in 2006, production fell from 531,095 ounces of gold to only 512,480 ounces. Cash costs of production rose from U.S. $ 419 per ounce to U.S. $572.

Most of Harmony's operations are in South Africa, which is a declining gold source. Last year, South African gold production was down to its lowest level in about 80 years. This year, the South African Bureau of Mines projects that nationwide gold production will be about 7.5% lower than 2006 levels.

By the way, as more areas are being explored, gold production is soaring in China. By 2010 at the latest, China will likely replace South Africa as the top gold producing nation.

## What Does This All Mean To You?

The prices of gold and silver have roughly tripled in the past few years in response to supply shortages that have not yet been resolved. In fact, shortages may increase in the next few years.

Consequently, I think it is very likely that gold and silver prices will continue to rise.

<u>Gold closed today at its third highest price ever</u>, topped by only two days in January 1980. In late 1979 and early 1980, there was a frenzy where it seemed as if everyone in the world was paying attention to precious metals prices and large numbers of them were jumping in to buy.

When the market sentiment was so thoroughly bullish that taxi drivers and strangers in checkout lines would tout gold and silver, that was a sign of a market top. That was the frenzy in early 1980, and the market declined soon after that.

A lot of technical market watchers say that the current bull market in gold will end any day now. Many of them have been saying that ever since gold passed $500 early last year. There are still lots of "experts" advocating that investors sell their precious metals.

These so-called experts seem to be missing two important bits of information. First, there has been inflation since the price of gold hit an all time high of $850 in January 1980. Depending on how you figure it, gold needs to get to at least $1,600 and maybe as high as $2,200 to equal the inflation-adjusted January 1980 $850 price.

Second, you have to look at investor attitudes, which are heavily influenced by the opinions of experts. There are several analysts that try to gauge bullish and bearish sentiments among investment professionals as one indicator on where the market is headed. One such analyst recently wrote that his latest survey showed that only 51% of trading professionals rated gold as a "buy," while 49% rated it as a "hold" or "sell." He said that in the past his survey showed market tops when the bullish percentage reached 90%.

So, there are not a lopsided number of investment professionals prodding their clients to own gold. Another analyst estimates that only about 3% of American investors own any gold. Again, that is not a sign of a market anywhere near the top.

For over 30 years, what is perhaps the largest investment conference in the U.S. has been held in New Orleans. Its focus has been on tangible assets and precious metals. Attendance at the New Orleans Investment Conference last week was reported to be about 30% lower than in 2006. That is definitely a sign that there is no gold frenzy running rampant right now.

The same story goes for silver. Even with many writers like me advocating the acquisition of precious metals, there is not the groundswell of investor interest in precious metals compared to what happened in early 1980.

To me that reinforces my conclusion that we are nowhere near to the market top for gold or silver.

At the close of U.S. markets on August 16, gold was $648.50, silver $11.65, and platinum $1,234.00. In the ten weeks since then, the price of gold is up 22%, silver 23%, and platinum 14%!

In my judgment, gold and silver prices have been rising in part because of the long-term fundamental shortages in those markets and partly because of the decline in efforts to suppress prices.

Platinum, on the other hand, is not a market where governments and central banks have any interest in holding down prices. Platinum prices have recently climbed to all time high levels (if you ignore the effect of inflation) partly because of temporary declines in production at some mines. However, the platinum market, over the long term, seems to be in general balance between supply and demand.

Steve Forbes, writing in the current issue of *Forbes*, describes what he thinks it would take to bring the price of gold back down to $500. First, he advocates that the U.S. dollar float cleanly against other currencies. Second, he says the Federal Reserve Bank has to actively withdraw U.S. currency from circulation and contract the money supply. Other than perhaps Rep. Ron Paul (R-TX), I doubt that there is any other politician or bureaucrat in Washington, DC who genuinely understands the problem or the proposed solution and who has the political integrity to execute such a program. In other words, this is very unlikely to happen.

For the next several months, I expect that the prices of gold and silver will gradually rise as we have seen over the past 10 weeks. They will not do so in a straight line, and there may be some intermediate profit-taking episodes along the way.

**I would not be at all surprised to see the price of gold reach $1,300 and silver get to $22 by April 2008.**

Even if the U.S. dollar has a short period of temporary strength, I urge you to take prompt action to establish or add to your gold, silver, and rare coin holdings. Call us today.

## Once Again, Own <u>Physical</u> Precious Metals

Some other hard asset analysts recommend owning stocks of gold and silver mining companies, or owning precious metals through the use of certificates or pooled accounts. Some of them also suggest the use of leverage to magnify results.

As much as I can emphasize, I recommend none of those steps. In my mind, the primary purpose of owning precious metals and coins is for insurance against calamities that affect the value of your paper assets.

As I discussed last month, owning stock in gold and silver mining companies could pay off much better than the physical metal. But there are greater risks of obtaining worse results than owning physical gold or silver. See my discussion for more details.

The risks of owning certificates or a portion of a pooled account is that the physical metal that the account represents may not actually be there (see discussion about Morgan Stanley earlier). There is some risk that you may never be able to obtain your metal or get paid for your holdings. If you must own gold or silver in this manner, I recommend obtaining the serial numbers of the specific bars that are supposedly being held for you. If you cannot get this information, you may not want to have any assets with that firm.

One possible exception to this guideline is the gold exchange traded fund (ETF) operated by State Street (symbol GLD). This fund lists on its website the serial number of all 48,000 400-ounce gold bars being held by the fund, updated weekly. If Barclay's silver ETF would do the same thing, I might feel more comfortable suggesting it for those who might have difficulty storing their silver holdings.

In order to assure yourself that your physical precious metals are under your control, don't leverage them. If you do, someone else has possession of your silver

(Continued on page 4)

*(Continued from page 3)*
and you face the risk of losing some or all of your holdings if there is a margin call.

Only by owning physical gold and silver that is not leveraged can you have an asset that is not potentially subject to claims by another party.

## You Saw It In Here First!

Six years ago, readers of this newsletter were informed about how much money the Bank of England lost in auctioning off more than half of its gold reserves from 1999 to 2001. Today's issue of London's *Daily Express* reports that Gordon Brown, who was then Britain's Chancellor of the Exchequer and is now the nation's prime minister cost taxpayers over $6 billion through the mishandling of these sales.

Readers of *Liberty's Outlook* don't always get a six-year advance notice on what is going to make newspaper headlines, but the point I want to make is that the business and general media often do a poor job of informing their readers of what is really going on in the world.

In particular, I find fault with reporting relating to just about anything with the gold market. Even now, with Citicorp and the U.S. Treasury acknowledging that gold has been surreptitiously dumped onto the market to hold down gold prices, most business journalists have totally missed this information. Today, most investors and members of the public have little understanding of what has happened and is not happening in the gold market.

By reading this newsletter, you have an edge in information to make more profits than the average investor.

## Gold and Gold Coins

Gold settled today at $792.00, up a huge $62.75 (8.6%) from four weeks ago..

Higher gold prices have encouraged more buying and selling. Premiums are largely unchanged, despite the higher price.

The low premium best buys continue to be the Austria **100 Corona** (2.9%), South Africa **Krugerrand** (3.0%), U.S. **American Arts Medallion** (3.0%), and Mexico **50 Peso** (3.0%). For smaller coins, the British **Sovereign** (5.9%) is a great buy.

For no particular reason, apparently, sellers sold us unusually large quantities of **Common-Date U.S. Gold Coins.** Then, in the past week, sales to us have almost stopped and we have been selling these coins at the fastest pace that we have in years!

It is almost impossible to find any sizeable groups of **Better-Date U.S. Gold Coins** or any gold, silver, or other coins that reflect unusually attractive value in the current market.

Fortunately, we are small enough that we can work with more modest groups of coins. We found three small groups of **Mint State 1911-C Canada Sovereigns** scattered in our inventory that, together, are enough to offer. We also picked up a modest quantity of the ever popular **Mint State France 20 Francs Gold Angels.** Both of these coins have stronger demand outside the U.S. so that they are now almost impossible to find domestically. First come, first served..

## The Month

| | | |
|---|---|---|
| Gold Range | 62.75 | 8.6% |
| Net Change | +62.75 | |
| Silver Range | 1.03 | 7.7% |
| Net Change | +1.11 | |
| Gold/Silver Ratio | 55.1 | |
| Net change | +0.4 | |
| Platinum Range | 107.00 | 7.9% |
| Net Change | +85.00 | |
| Platinum/Gold Ratio | 1.81 | |

| Date | Gold | Silver | Platinum |
|---|---|---|---|
| Oct 03 | 729.25 | 13.34 | 1,352.00 |
| Oct 04 | 737.00 | 13.38 | 1,358.00 |
| Oct 05 | 741.25 | 13.38 | 1,367.00 |
| Oct 08 | 732.75 | 13.26 | 1,354.00 |
| Oct 09 | 737.25 | 13.46 | 1,360.00 |
| Oct 10 | 740.25 | 13.57 | 1,378.00 |
| Oct 11 | 751.00 | 13.86 | 1,402.00 |
| Oct 12 | 748.50 | 13.80 | 1,397.00 |
| Oct 15 | 757.00 | 13.76 | 1,406.00 |
| Oct 16 | 757.00 | 13.56 | 1,405.00 |
| Oct 17 | 757.50 | 13.65 | 1,420.00 |
| Oct 18 | 764.00 | 13.71 | 1,430.00 |
| Oct 19 | 764.00 | 13.55 | 1,431.00 |
| Oct 22 | 754.75 | 13.47 | 1,422.00 |
| Oct 23 | 758.50 | 13.56 | 1,440.00 |
| Oct 24 | 761.50 | 13.52 | 1,433.00 |
| Oct 25 | 767.25 | 13.84 | 1,440.00 |
| Oct 26 | 783.75 | 14.21 | 1,459.00 |
| Oct 29 | 788.75 | 14.36 | 1,455.00 |
| Oct 30 | 784.25 | 14.27 | 1,428.00 |
| Oct 31 | 792.00 | 14.37 | 1,435.00 |

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 closed today at $14.37, a nice increase of $1.03 (7.7%) from early this month.

Just like gold, higher prices have spurred higher levels of buying and selling.

An effect of the higher silver price is that premiums have fallen on a number of forms. For instance, you can now purchase bags of both U.S. **90% Silver Coin** (0.0%) and U.S. **40% Silver** Coin (0.0%) right at the silver spot price. For most customers, I recommend the U.S. 90% Coin as the best form of physical silver to purchase. It is the most liquid, most widely traded, and most divisible (a silver dime contains about 1/14th of an ounce of silver) form of silver.

The **100, 10, and 1 Oz Ingots** (2.8-3.9%) are worth considering is limited storage space is a critical factor. In my mind, it isn't worth paying the extra 40-55 cents per ounce to save a little room.

Because of all the copper and nickel content (60% of the coin's weight), the postage and storage costs to transport 40% Silver Coin are higher. I generally do not recommend this form, although **Mint State 40% Silver Half Dollars** are worth considering as a collectible if you can acquire them at a low enough premium to silver content.

Even with the difficulty acquiring nice coins that reflect great value, sometimes deals just fall in your lap. This month, we feature **Choice Mint State-63+ Rolls of 1955-P, 1955-D, and 1955-S Roosevelt Dimes.** These are three of the four lowest mintage dates of the entire 61-year history of this series, yet they don't cost all that much more than the common silver issues.

Like American coins, it is also hard to find quantities of interesting **World Silver Coins.** This month we have two different small groups: **Mint State Mexico 1968 Olympics 20 Pesos** and **Mint State Mexico 1 Oz Libertads.** See our enclosed offer for details.

**Final Note:** As I am finishing this issue, the Federal Reserve just reduced a key interest rate by 1/4%. Gold and silver are up in the aftermarkets. See you next month.



*Liberty's Outlook* is published monthly by Liberty Coin Service, 300 Frandor Ave., Lansing, MI 48912. Telephone: National 800/527-2375 Fax: 517/351-3466 Website: www.libertycoinservice.com, E-mail: path@libertycoinservice.com Patrick A. Heller, Editor. Subscriptions are available at $109.00 per year (12 issues). Send subscription orders and changes of address to the above address. All information is derived from sources believed to be reliable, but accuracy cannot be guaranteed. No guarantee of profitability of any investment or recommendation contained herein is made or implied. Liberty Coin Service has been a dealer in rare coins and precious metals since 1971. The publisher, its principals and associates may, from time to time, have a position in items recommended here. 