Liberty's Outlook

Volume 14 Issue 11 Liberty Coin Service's Monthly Review of Precious Metals and Numismatics November 5, 2008

The Elections Are Over—Now What?

—Will The COMEX December Gold And Silver Contracts Go Into Default?
—In 2009, Will Congress Enact Legislation Confiscating Precious Metals IRAs And Other Private Retirement Accounts?

Early last month, Congress finally passed the "bailout" bill to devote $700 billion to rescue troubled financial institutions.

In order to get it passed, more than $100 billion of extra political "gifts" were added to the bill to encourage support. For example, a labor law change was inserted that exclusively benefits only one company that 1) happens to have its headquarters in House Speaker Nancy Pelosi's district and, 2) is one of her major contributors. This was a bill that previously had hit a dead end in Congress because it was so blatantly introduced to benefit this one company.

In theory, the bailout was for the US government to purchase bad debts from the financial industry. That's not really what is happening.

Instead, major financial companies have accrued about $70 billion of year end bonuses to be paid with part of the proceeds. The government also allocated $125 billion to purchase shares of stock in nine large banks at prices that one analyst calculated to be about double of what private investors would have paid.

The bailout did not work in terms of getting banks to resume making loans as they did before the subprime mortgage crisis developed in 2007.

The bailout also failed to ease investor concerns about the economy. Even with active US government intervention (through its trading partners) to support the stock market, US and foreign stock markets fell sharply in the past month. As you can see by the table to the right, all of the major indices I track have fallen 27-40% so far in 2008, with most of the decline in the past seven weeks. Near the end of October, for example, the Dow Jones Industrial Average hit a five year low.

As we approached the US elections that occurred yesterday, we saw manipulations by the US government and its allies all over the markets. The price of oil fell sharply so that consumers (mostly voters) could enjoy some relief in the wallet.

To discourage investors from considering a switch from stocks and bonds to precious metals, the gold and silver prices were clobbered again and again.

Bailout proposals of all kinds gained attention in Washington, including subsidies for Americans to buy new cars, the government buying a majority ownership of AIG (the nation's largest insurance company), and support for other debt markets that are turning worse.

Foreign investors (including the Taiwan government) were dumping their Fannie Mae and Freddie Mac bonds. In order to replace them with "safer" Treasury debt, they had to acquire US dollars, which helped drive up the relative value of the US dollar.

In the name of stabilizing markets, the US government has constantly unveiled new programs that have the effect of increasing instability. Now that the US elections are over, and politicians don't has a much incentive to try to make the national economy look better than it is, what are we facing now?

And what changes is president-elect Barack Obama likely to implement next year that will affect the global, national, and your personal financial circumstances?

What Is Happening Right Now?

Just last week, the US government finally admitted that America is in a recession.

The Bureau of Labor Statistics October report of the U-6 definition of unemployment in the US reached 11%!

The US Treasury has been adding debt and

2008 Year To Date Results

Through November 4, 2008

Precious Metals	
Gold	-8.3%
Silver	-28.9%
Palladium	-35.3%
Platinum	-40.0%
Numismatics	
MS-63 $20.00 Liberty	+18.3%
MS-65 Morgan Dollar	+17.2%
MS-63 $20.00 St Gaudens	+14.9%
US Dollar vs Foreign Currencies	
Great Britain Pound	+25.1%
India Rupee	+20.0%
Brazil Real	+19.8%
Canada Dollar	+17.3%
Euro	+13.3%
Switzerland Franc	+3.3%
China Yuan	-6.3%
Japan Yen	-11.1%
U.S. Dollar Index 84.563	+10.26%
US and World Stock Market Indices	
Dow Jones Ind Average	-27.4%
London FT 100	-28.2%
Russell 2000	-28.7%
S&P 500	-31.5%
NASDAQ	-32.9%
Frankfurt Xetra DAX	-34.6%
Tokyo Nikkei 225	-40.4%
Intrinsic Metal Value Of U.S. Coins	
Lincoln Cent 1959-1982	1.27¢
Lincoln Cent 1982-date	0.30¢
Jefferson Nickel-non-silver	3.06¢
Roosevelt Dime 1965-date	1.39¢
Wash Quarter 1965-date	3.47¢
Kenn Half Doll 1971-date	6.94¢

Inside this issue:

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increasing the money supply by tens of billions of dollars every week for the past few months.

The US dollar appears to have peaked and is now beginning its next major decline.

Several major American financial institutions such as AIG and Goldman Sachs appear to be on the brink of failure. AIG is widely regarded as holding the largest quantity of silver derivatives. If it fails, the counterparties to AIG contracts are likely to be forced to purchase paper or physical silver to minimize the risk of further losses.

Demand for physical gold and silver soared in the second half of September. Premiums rose and inventories disappeared.

As prices started to slide on October 10, falling so much in the next three weeks that the price of gold experienced its largest percentage drop in any calendar month ever, demand continued to rise.

Physical forms of gold and silver bullion coins and ingots that were difficult to obtain at the end of September became all but impossible to purchase by mid-October.

What you could find was priced at ever higher premiums. Bags of U.S. 90% Silver Coin, which were selling at a premium of 1.3% above intrinsic value four months ago, and a 26.8% premium five weeks ago, soared all the way to more than 50% by mid-October (it has since receded to "only" 34%).

The Royal Canadian Mint created a 2009-dated 1 Oz Gold Maple Leaf to commemorate the 2010 Vancouver Winter Olympics. Mintage was 50,000 coins. It began to take orders in mid-October. We were able to procure several hundred of these coins at a lower premium than we would have to pay for any regular Maple Leafs. The drawback was that we had to pay in full with an immediate bank wire for coins that should be delivered in mid-November. As we neared a sellout of our allotment in a few days, we tried to purchase more. The entire mintage had already sold out!

In the meantime, manufacturers of all sizes of silver ingots cut off accepting orders because of the lengthy backlogs and uncertainty of obtaining physical supplies. Some companies have jumped into the business by purchasing COMEX contracts for 1,000 ounce bars, then requesting delivery so that they could be melted down to make smaller size ingots that could be sold at a much higher premium (The company that fabricates ingots for LCS cannot do this because they make their bars .9995 fine, whereas COMEX bars are only .999 fine and would have to be refined to the higher standard to be used. The company just doesn't have the refining capacity to do so now.).

With high premiums and little merchandise available, American buyers have slowed down their efforts to buy gold and silver in the past three weeks.

On the other hand, lower gold and silver prices spurred soaring demand in India. From August through October, India imported several times as much gold as it did in all of the year 2007! Silver demand is so strong that the three major exporters of silver to India have now either cut off further sales on consignment or are just rationing a small fraction that dealers want to purchase.

As the price of gold was falling in October, a surprisingly large number of large gold bars appeared on the market with hallmarks that indicate they either came from International Monetary Fund (IMF) or the US Treasury. When asked point blank if it was placing gold on the market, on October 30 the IMF explicitly denied that it was selling or leasing any gold. However, it never mentioned whether it was engaging in gold swaps, which is similar to a lease, that could have the effect of adding to gold supplies now in return for lower gold supplies in the future.

Some of these bars are marked .899 purity, which indicates that the gold came from the US government's melt down of the gold coins that were turned in back in 1933. The government simply melted the 90% pure coins without refining back into pure form. These bars are currently stored at the government facility in West Point, New York.

The US government has sold some of these .899 gold bars in decades past. It could be possible that whoever is holding a large quantity of these could just happen to be selling them in a very short period of time, or it might be possible that the US government could be trying to sneak more gold into the market as one of the ways it is trying to hold down the gold price. Those who know for sure aren't telling.

To try to get around the high premiums, several investors are purchasing COMEX gold (100 ounces) and silver (5,000 ounces) contracts to request delivery. Almost 1300 silver contracts, totaling 6.5 million ounces, were delivered in the month of October. There is a good chance that there are much larger purchases for delivery against the December contracts.

In normal commodity contracts, the future contracts are worth a premium to the spot month by roughly the applicable interest rate. In a market supply squeeze, the commodity contracts can go into backwardation, which means that contracts for immediate delivery are worth more than those for future maturity. The COMEX silver market is not yet in backwardation, but it has been moving in the direction for the past several weeks. This is a significant indicator of an imminent physical silver supply shortage.

Today, the London silver spot price was ten cents higher than New York COMEX prices. Silver traded in London has to be refined to .9999 purity and physically transported to London. To remove the .999 pure COMEX bars, re-refine them, then ship them across the Atlantic would cost about seven cents an ounce. As long as the London premium is at or below seven cents, traders will leave silver on the COMEX. If the London silver premium remains above seven cents for a time, you will see traders removing silver from the COMEX to deliver it to the London Metals Exchange. This high premium is one of my signals when watching for an imminent sharp increase in the silver price.

Before the elections were even over yesterday, the price of gold rose to a level that was 10% higher than it had been just two weeks earlier. Today, silver reached its highest close since October 15.

There are also signs that the largest silver exchange traded fund (symbol SLV) is having shareholders turn in their shares to withdraw millions of ounces of silver recently. With the price of SLV stock trading for less than the value of the silver it theoretically represents, it wouldn't take much for a run to develop.

On the supply side, falling prices for gold and silver, and for the other metals from which silver is often mined as a byproduct (copper, lead, and zinc) over the past few months have led to mine closures and cutbacks, and cancellation and postponement of new projects. Newly mined gold supplies are already falling. Unless prices rise sharply, newly mined silver supplies will fall as well.

The December options contracts expire on November 20. There could be some volatile times over the next two weeks. If gold and silver prices rise much, more owners of call options (which give them the right to demand delivery at the contract price) will be "in the money" and exercise their contract. The latest information I've seen shows that there are 70% more call options for December than put options (which gives the owner the right to deliver at the contract price), which could put even more squeeze on gold and silver supplies. This is one reason why I expect continuing efforts to suppress precious metals prices before then.

The suspicious appearance of these large gold bars, the rising London silver premium, the potential that so many December COMEX contracts for gold and silver are being purchased for delivery (only a small percentage of physical metal is registered to deliver against these outstanding contracts), and the COMEX silver market nearing backwardation are all indicators that we could see some explosive price increases yet in 2008.

If we don't by the end of the year, the pres-

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sures will be even stronger for higher prices in the first few months of 2009.

One reason for this optimism, especially for silver, is that if the industrial users of silver have any difficulty obtaining supplies, they will become more aggressive at increasing their silver stockpiles. Silver is normally a very small cost component of the finished product, so it is more important to make sure that supply is available than worry about the absolute cost of it.

In sum, the ever more desperate tactics used to suppress gold and silver prices could be a sign that the manipulators are running low on ammunition. They can still change laws and take other measures that don't require the movement of physical metals. But, if you are patient, I think brighter days lie ahead.

What About 2009 And Beyond?

President-elect Obama has gone to extraordinary lengths to avoid any significant track record demonstrating how he will act as president. His campaign managers ran an impressive campaign, which shows that he has some skills in selecting good people. But those skills are not sufficient to assure that he will act competently.

With large Democratic majorities in both houses of Congress, Obama should be able to enact much of the Democratic agenda and also be able to appoint Supreme Court justices who will make decisions with less regard for the Constitution than other "priorities."

When talking about the financial crisis, Obama claimed to be a supporter of the free market, a position not supported by his other statements and actions.

The incoming president appears to have little mastery of the matters that a president must handle. He doesn't appear to understand simple economics, energy, or foreign affairs, just to name a few. I don't think that his friend Oprah Winfrey can raise enough money from a rummage sale to cover the federal budget deficit (a little joke here) or that inflating vehicle tires is all that is needed to cure rising energy costs.

However, there is a possibility that he could appoint cabinet members, department heads, and aides who will give him sound counsel. Because we know so little about Obama's agenda, we will have to wait and see how he performs.

Still, Obama is a politician. He has significant political debts to pay for the support that helped get him elected. To provide political payoffs, here are a few of the events I expect to happen in 2009:

Higher taxes: Obama has promised to raise income taxes, supposedly on only the richest 5% of Americans. This is a completely unrealistic campaign pledge. I'm sure he will raise taxes, but apologize that he has been forced to raise them higher and covering more taxpayers than he promised. By focusing on the more prosperous, he will be diverting assets that otherwise might have been used to create jobs for Americans.

Check card unionization rules: The big issue now pushed by labor unions is to eliminate the secret ballot for deciding whether a company's workforce is unionized. Union organizers would be much more effective if the law were changed where every employee had to sign a card in front of union representatives indicating whether they support unionization. For many years now, more jobs are being created in states with laws less accommodating to unions. The states with stronger unions are also those that are losing jobs. If this labor law change occurs, expect more American jobs to leave the country.

Possible government confiscation of private retirement accounts including precious metals IRAs: On October 7, the House Education and Labor Committee (Rep George Miller, D-CA, chair) held hearings on "Saving Retirement in the Face of America's Credit Crises: Short Term and Long Term Solutions." One of the speakers was economics professor Teresa Ghilarducci from the New School for Social Research. She advocated that the US government seize 100% of assets in 401k and other private retirement plans and replace them with Treasury bonds paying 3% interest. Upon retirement, the bonds would be converted into an annuity. Upon death, there would be no retirement account assets in the deceased's estate.

For years, I have warned readers that the government would eventually get around to confiscating at least part of retirement accounts, being promoted as a way to "guarantee" the safety of the assets. This proposal may not turn into legislation next year, but it would be a wonderful way for the US government to help fund part of its soaring deficit. If this does not come to pass in 2009, look for it in the not too distant future.

While replacement of retirement assets with government bonds will end up being beneficial to a small number of citizens, overall it will be another wealth-destroying program similar to Social Security.

Those holding precious metals IRAs could lose all the benefits if this idea becomes law. While you would have some time to try to make arrangements before this could become law, you might want to begin making plans on what to do "just in case." At the least, I would be averse to adding any additional precious metals into an IRA. If you talk to rare coin and bullion dealers who now try to sell you on the idea of setting up a precious metals IRA, that could be a sign of a company that you should not patronize.

Huge increases in the US money supply and rapid depreciation in the value of the US dollar: If the government is trying to avoid raising taxes much, it can only try to cover huge deficits by borrowing or inflating the money supply. The number of foreign governments and investors willing to hold US debt is declining. That leaves much higher inflation as the only practical way for the federal government to try to fund its activities. This development is pretty much already locked into place by the events of this year. I don't expect the worst of the fallout to hit until 2009, no matter what the new president may do.

I will leave to others to present a more in-depth analysis of the dangers facing Obama when he takes office. In my view, it would take a miracle to avoid a depression next year.

The main hope I have that I am wrong is remembering back in 1973 when the prime interest rate reached 6%. I was in college then, with little real world experience. When that even occurred, I though the economy would crash. Although it did have several rough years, it didn't crash. Since then, I often have had a tendency to anticipate bad news too early. In the past couple of years, my worries have pretty much been on target. I wouldn't mind being wrong about America falling into a depression next year. But I still recommend holding significant positions in gold and silver as insurance against even worse calamities that might affect the US dollar and dollar-denominated paper assets in 2009.

Follow Up On A Note From Last Month

In last month's issue, I reported how two Citigroup metals analysts issued a report on September 17 in which they stated, "Frankly, we're surprised that gold is not already at $2,000 per ounce."

Raising such questions must be contrary to Citigroup policy. The two analysts lost their jobs in early October and I have been told that the Citigroup website deleted every one of their research reports.

Gold and Gold Coins

Gold closed today at $751.25, down $137.50 (15.5%) from last month.

As I have already discussed, there are a lot fewer physical gold bullion coins and ingots available for immediate or short-term delivery than a month ago.

Premiums on anything you can purchase are higher. The lowest premium item at the moment is **Kilogram Ingots** (3.5%). As the bar contains 32.15 oz of gold, however, it is beyond the means of most potential buyers. In addition, it has poor divisibility.

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You have to purchase or sell the entire bar; you cannot only trade part of it.

Among the lower premium gold issues that you can purchase for 1-4 weeks delivery are US **American Arts Medallions** (7.7%), Mexico **50 Pesos** (8.0%), and Austria **100 Coronas** (8.5%). Other major 1 ounce gold coins such at Canada **Maple Leafs**, South Africa **Krugerrands**, US **American Eagles** or **Buffaloes** are all much more expensive, if you can even order them.

Supplies are spotty. We have only been able to help a couple of customers in the past month who wanted to purchase 100 ounces or more of gold in a single purchase.

Prospects are even worse for smaller-size gold coins. Expect to pay 20%, 30%, and even higher premiums if you are even able to place orders for anything.

The slowdown in demand in the US over the past few weeks may help premiums to fall. Already several are down slightly from two weeks ago. I anticipate more premiums could drop further, especially if the gold spot price rises sharply.

I personally am quite leery of purchasing COMEX gold or silver contracts to take delivery as a means to try to purchase large quantities of physical gold. COMEX rules allow contracts to be settled for cash instead of the metal. In the past several months, the number of open gold contracts on the COMEX has declined almost 50% because of the higher risk of default, especially of the December contract. It the COMEX defaults, it could take months for you to get your cash, leaving you open to adverse market swings.

More investors are trading in the London market, where contracts are traded for delivery of physical metal rather than the normal practice in the COMEX of paper contracts being rolled over into new paper contracts upon maturity.

Premiums are also up sharply on all **Classic US Gold Coins**. In fact, several prices are actually up in the past month, despite the 15% drop in the spot price! Premiums are high enough now that I don't recommend their purchase for investment. The same goes for many **Better-Date US Gold Coins** that can be acquired at or close to the price of common-date issues.

Remember—even though we are unable to quote prices for regular supplies of many gold or silver coins and ingots, we often have small quantities on hand. Feel free to ask us what we have available.

The Month

Gold Range	177.25	19.8%
Net Change	-137.50	
Silver Range	3.68	28.2%
Net Change	-2.21	
Gold/Silver Ratio		69.2
Net change		+1.2
Platinum Range	242.00	22.6%
Net Change	-151.00	
Platinum/Gold Ratio	1.22	

Date	Gold	Silver	Platinum
Oct 01	888.75	13.07	1,071.00
Oct 02	854.00	11.57	1,031.00
Oct 03	837.00	11.67	1,011.00
Oct 06	870.75	11.63	1,020.00
Oct 07	888.75	11.73	1,060.00
Oct 08	909.00	12.12	1,052.00
Oct 09	891.00	12.22	1,061.00
Oct 10	867.50	10.95	1,036.00
Oct 13	849.00	11.24	1,037.00
Oct 14	844.25	11.42	1,084.00
Oct 15	843.50	10.54	1,025.00
Oct 16	811.50	10.11	962.00
Oct 17	797.00	9.91	951.00
Oct 20	797.50	10.17	952.00
Oct 21	780.00	10.45	951.00
Oct 22	748.25	9.95	907.00
Oct 23	733.25	10.00	845.00
Oct 24	744.00	9.80	845.00
Oct 27	756.75	9.70	842.00
Oct 28	754.25	9.39	858.00
Oct 29	767.25	10.30	858.00
Oct 30	752.25	10.29	881.00
Oct 31	731.75	10.23	870.00
Nov 03	737.50	10.33	870.00
Nov 04	766.00	10.53	908.00
Nov 05	751.25	10.86	920.00

London Silver Market Premium To New York Silver Market = 10¢

Note: On days where there were different buying and selling spot prices, the price listed above is the LCS selling spot price.

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

Silver and Silver Coins

Silver settled today at $10.86, down a whopping $2.21 (16.9%) from five weeks ago.

At its low point eight days ago, silver actually fell below $9 during intraday trading and settled at $9.39. Since then I have seen signs of pressure for higher prices. It may take a while to move back up to the $13.00 range, but once it starts moving in earnest, it could easily climb $1.00 to $2.00 per day for a few weeks.

A couple weeks ago, the premiums on US **90% Silver Coin** (33.9%) topped 50% and even US **40% Silver Coin** (15.0%) was well over 30%. They have come down since then and may fall further before prices take off.

Since the 24-hour period in September where we were unable to locate any 90% Silver Coin, we have continuously been able to offer this product for immediate delivery. The 40% Silver Coin is available with, at the slowest, only minimal delay in delivery.

Premiums on US **Silver Eagle Dollars** (66.8%) and Canada **Silver Maple Leafs** keep getting higher week by week. Supplies are thin, though we have mostly been able to take orders for up to 100 pieces of Silver Eagles for immediate delivery.

The US Mint has announced that it is raising the premium by 15 cents, from $1.25 to $1.40 above the London spot price, that it will charge primary distributors when it releases 2009 Silver Eagles at the beginning of January. Because of tight supplies for the past six months, I expect that demand for the 2009 Silver Eagles will be massive. Maybe premiums will fall significantly in January, but I don't expect to see them anywhere near the premium levels that existed in January 2008. I don't recommend Silver Eagles as a way to own a large silver position. There are some investment writers that have stimulated demand by recommending them, but I generally urge you to get the most silver for your money. At the moment, 40% Silver Coin is the low premium leader. Unfortunately, because of the 60% copper-nickel content, higher postage and storage costs can eat up a lot of the savings from the lower premium.

With new fabricators ramping up infrastructure to melt 1,000 Oz ingots and produce smaller size bars, I wouldn't be surprised to see supplies start to appear on the market within the next month. At first, premiums will be outrageous, and you will be seeing entirely new brand names. But premiums should come down as more competitors bring product to market.

LCS Retail Store Manager Bob Sweet has been to three major coin shows in the past several weeks. He has scooped up several US collector coins, all but one made of silver, that combine high-end quality with extra eye appeal. Please see our **Sweet Deals #6** flyer for details.

This month we also feature our **Unique Treasures Of Enduring Value**, a gift guide that includes a number of silver coins. Enjoy it.

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