Liberty's Outlook

Volume 8 Issue 10 Liberty Coin Service's Monthly Review of Precious Metals and Numismatics October 2, 2002

The Case For $1,000+ Gold!

P.3 U.S. Rare Coin Market Heating Up!

Last month, I forecast, with some trepidation, that gold would reach $350 and silver $5.50 by the end of October.

It hasn't happened yet.

With barely four weeks to go, I still see a significant prospect that gold will reach this level in time. I am less confident of silver making a major move this quickly.

In the past several issues, I have discussed many of the underlying reasons for my optimism. Here are some recent developments supporting my general thesis that gold and silver are due for a major break upward in price. Even if it doesn't happen by the end of October, I conclude that the day is approaching.

Denver Gold Forum Reports

As I write this, the three-day Denver Gold Forum is wrapping up. This is primarily an opportunity for gold mining companies to impress investors about their potential for higher future profits. But there are also other presentations.

On Monday, Tocqueville Asset Management's John Hathaway said, "Having suppressed the normal functioning of capital markets over the last two decades, the Federal Reserve and economic policy makers have set the stage for a protracted period of sub-par investment returns." He believes we are approaching the time when there will be a mass emotional and psychological shift toward gold sparked by the dissatisfaction with low returns on paper assets and a fear of future risks.

Hathaway says that it is a surplus of dishonesty at every level that will stimulate gold demand. The indicator he uses to evaluate this is the spread between AAA and BAA corporate bonds. The gap is currently above 12 points, its widest in more than a decade. Although that is smaller than the 28 point spread record in the early 1980s, he thinks that gold prices in the $320s are just a prelude to a repeat of the 1980 peak in gold prices.

As I understand this indicator, in times of worry about the accuracy of financial information, the financial strength of companies that are not top-rated is discounted more heavily than in more trustful times.

Within five to ten years, Hathaway expects the price of gold to exceed the Dow Jones Industrial average, when both are around 1500.

Also on Monday, Graham Birch, of Merrill Lynch Investment Manager's gold fund, one of the top performing mutual funds this year, reported that the fund had received a record $150 million in net new investment money in August. He said that this is a continuation of a trend that began last year. He further noted that the money coming into his fund is "sticking" rather than flying out at every dip of the gold price.

Birch reported that a major institutional obstacle to investing in gold is the entrenched investment cultures at brokerage firms. He sees change taking place, though, with the result that more investors will take a position in gold as part of their portfolio.

Apparently, as a reaction to Birch's strong results with his mutual fund, Merrill Lynch now recommends that investors hold 5% of their portfolio in gold!

The major gold mining companies are making their presentations today. At least two companies recently announced that they would make further substantial reductions in their pre-sold gold contracts by the end of this year, perhaps as much as 6.5 million ounces. More details are expected today, which will be reported after this newsletter goes to the printer.

2002 Year To Date Change In Value
As of October 1, 2002

Precious Metals	
Platinum	+15.9%
Gold	+15.1%
Silver	-2.4%
Palladium	-28.0%
Numismatic Coins	
1937 Buffalo Nickel, PR-66	+41.5%
1936 Walking Half, PR-65	+29.7%
1936 Mercury Dime, PR-65	+24.3%
$20.00 St Gaudens, MS-60	+16.9%
$20.00 Liberty, MS-60	+16.8%
US Dollar vs Foreign Currencies	
Canada Dollar	-0.7%
Japan Yen	-6.8%
British Pound	-7.7%
Euro	-10.5%
Swiss Franc	-11.7%
US and World Stock Indices	
Frankfurt DAX	-44.5%
NASDAQ	-37.8%
London FTSE 100	-27.2%
S&P 500	-26.2%
Dow Jones Industrial Average	-20.8%
Nikkei 225	-13.1%

Other Recent And Forthcoming Developments

1) In the last few days, the Dow Jones Industrial Average (DJIA) reached its

(Continued on page 2)

Inside this issue:

(Continued from page 1)
lowest levels in four years. The quarter ended September 30 was the worst for U.S. stocks since 1987!

2) Although the market is supposedly efficient and reflects bad news yet to come, I fear that U.S. stocks are due for another clobbering by year end. A new accounting rule takes effect that requires publicly held U.S. companies to write down their goodwill assets if the companies determine that current market value is below what is on the books.

Already AOL Time Warner has written off $54 billion in the first quarter this year. AT&T took a $16.5 billion write-down in the second quarter.

Smaller companies such as Selectron Corporation have warned that they may take a major bite when they report fourth quarter results. The recent market value of Solectron's stock was just $3.2 billion, versus reported stockholders' equity of $7.4 billion (which includes $4.5 billion of goodwill).

Even though the average investor supposedly already knows all this bad news is coming in the next few months, it is entirely possible that all the huge goodwill write-down losses that will be reported could lead to a major shift out of paper assets. If that comes to pass, a significant amount of those funds could be used to buy gold, silver, and rare coins.

3) Investment advisor James Sinclair has often been nicknamed "Mr. Gold." He correctly projected the gold boom of 1979-1980, made huge profits selling out at the top, then forecasted a 15 year slump for gold prices.

In a recent interview, he stated that the only reason to invest in gold for appreciation is if five market indicators coincide. His indicators are:

- The U.S. current account must be in a deficit and growing larger.
- The U.S. dollar must have hit a high and be on a downward trend.
- Prices of general commodities must be going up.
- Confidence in paper assets must be falling.
- The bond market must have hit a high and be on the way down.

Sinclair noted that the first four indicators are positive, with only falling bond prices needed for gold to surge to much higher levels. At the conclusion of the interview he said, "The investment decisions of the non-U.S. holders of U.S. government securities is the singular most fundamental characteristic that will determine if there is a long-term bull market in gold. . . . My own conclusion is, yes, gold will go higher."

4) The stock value of JP Morgan Chase hit a seven-year low this week. Besides possible regulatory investigations, the bank is subject to a high level of risk for its derivatives position.

JP Morgan Chase recently held $26 *trillion* in derivates exposure, more than double the amount held by the next largest competitor. Most of these derivatives involve interest rates, while only a comparatively modest percentage (*only* $45 billion!) are gold contracts. Although the bank claims that it has safely hedged its derivatives position, the risk is still huge.

You see, virtually all of the gold derivatives have shorted gold. If the price of gold rises to a certain level, the bank's risk-limiting controls will spark nearly automatic moves to cover short positions. Gold derivates in the amount of $45 billion implies contracts covering about 140 million ounces of physical gold. That is a huge quantity, approaching two years worldwide mining production, for JP Morgan Chase to have to purchase to close their derivative contracts, to say nothing of the gold derivative contracts held at all other banks!

If some of JP Morgan Chase's customers were unable to settle their liabilities for closed derivatives contracts, the bank itself would be stuck with at least a portion of the losses. Such an event would almost certainly trigger an economy-shaking banking crisis.

5) Masaru Hayami, governor of the Bank of Japan, announced on September 18 that the Japanese central bank would directly buy from Japanese banks some of the banks' corporate stock holdings. This would relieve the banks of some of their unbooked losses in their equity portfolios.

This tactic is being taken for two reasons. First, it will help stabilize the shaky Japanese banking system. Second, it will help prop up the Japanese stock market, which recently hit 19 year lows.

Negative fallout to this announcement was quick. Anticipating that this move would damage the Bank of Japan's financial position, investors unloaded the Bank's bonds. The ten-year government bond futures contract suffered its largest one-day drop in the past two years. Even the yen dropped to a three month low against the U.S. dollar.

Before this announcement, the current Japanese government budget was running a deficit equal to 8% of GDP. In comparison, the U.S. government's budget deficit is only about 1% of GDP. The government could tap its more than $400 billion in foreign exchange reserves, but doing so would no doubt repatriate a lot of U.S. government securities (see item 3 above).

However, if this bail-out works, it will almost certainly incite more gold demand in Japan.

What Does All This Mean For Gold?

There are a lot of threads to pull together here, but here are some common themes I detect:

1) The number of strong-hands gold investors is gradually increasing and will continue to do so.
2) Investment professionals are slowly adding gold to portfolios that formerly had no gold.
3) Physical gold supplies will continue to be tight and not meet physical demand even under the most optimistic scenarios.
4) There is a significant chance that the economy has more bad news ahead, prompting further declines in the stock markets.
5) There is even a possibility of a crisis that could result in a sharp rise in gold demand, causing prices to skyrocket.

From this point forward over the next year, I give gold a 10% chance of dropping back below $300 for an extended time. I think there is a 20% possibility of gold staying in the $300-330 range, a 25% chance of reaching $330-360, a 10% prospect of getting to the $360-400 area, a 25% likelihood of attaining $400-600, and even a 10% probability of topping $600.

Note that none of this even considers the impact of possible wars, whether or not the U.S. is directly involved. Any significant military action would lead to increased demand for gold as a safe haven asset, increasing the probabilities of higher prices.

Given the above probabilities, you can see that I think we are still in the early stages of the next gold bull market.

As I have recommended before, I think it is a good idea to have some-

(Continued on page 3)

(Continued from page 2)
where between 5% and 20% of your net worth in gold and silver and possibly rare coins as protection against calamities that might affect the value of your paper assets and currencies. While you might have time to leisurely add to your holdings, you also might not have much time. I think it would be prudent to add to your holdings sooner rather than later.

Short-Term Silver Outlook

While I am solidly optimistic about the short and long term prospects for gold, and about the long term outlook for silver, I believe there is a significant chance that silver could lag in the next month.

Any economic news that signals a continuation of the recession, will imply continued soft industrial demand for silver. Even though the supply of silver in 2002 from new mine production, recycling, and government sales will still fall short of industrial demand by at least 75-100 million ounces, there is a chance for the price of silver to drop from current levels.

Silver has ranged between $4.40 and $4.80 over the past three months. When a price seems to be stuck like that, it becomes more subject to the effects of a short-selling assault. It is entirely possible that, absent any exiting news in the gold market, silver could get down to $4.25 and maybe even close to $4.00 before year end.

This does not mean that I recommend selling your silver. Any positive moves for gold will almost certainly pull up silver in sympathy. With the silver market being much smaller than that of gold, it can rise much more quickly than the yellow metal. As a result, I still recommend holding at least as much of your net worth in bullion-priced physical silver as I do for bullion-priced physical gold.

U.S. Rare Coin Market Heating Up!

We have been reporting solid collector demand for rare coins for the past two years or so. Collectors form the ultimate bedrock demand for rare coins; you can often detect market direction by whether they are buying or selling.

One tendency among collectors is to be tight-fisted. If they cannot acquire a coin a what they consider a fair price, they will patiently wait for another opportunity. Thus, the numismatic market in the past two years had not seen much in the way of price increases, despite the increasing difficulty of locating attractive coins.

That is changing. Prices are on the way up. LCS Chief Numismatist Allan Beegle observed the dramatic evidence first hand when he attended the Long Beach Exposition in California last week.

This coin show, held three times a year, is one of the largest in the country. At shows like these, we typically spend about five times what we take in.

This time around, Allan sold almost four times what we sell at a typical Long Beach show. Many coins sold to other dealers for prices at or even above what we had priced the coins to retail customers!

On the other side, Allan spent about 75% less than usual. Dealers were quoting stiff prices, making it almost impossible to pick up wonderful bargains. There was one wholesaler who specializes in importing coins from Europe who is often a good source of bargains of some kind. This time his prices were just too high across the board.

Another wholesaler friend was scouring the floor for inexpensive U.S. $20.00 Gold Double Eagles that he could ship back to buyers in Europe. Normally, these coins bring higher prices in America so the Europeans ship coins here!

Over the past two years, better-date U.S. Gold Coins, better-date U.S. Silver Dollars, Classic U.S. Gold and Silver Commemoratives, and lots of key date coins have been actively sought by collectors.

With the recent increase in activity, it is likely that the generic, or Blue Chip, coins such as common-date U.S. Gold Coins and Silver Dollars will experience price increases along with the coins mentioned above. In my judgment, we are in the early stages of a multiple-year broad-based rise in the rare coin market. Pat yourself on the back if you have been stocking up on goodies over the past few years.

Silver and Silver Coins

Silver closed today at $4.47, unchanged from last month. It exemplifies the comparative quiet of the silver market in the past four weeks.

Though we have not seen frenzied demand for physical silver, interest has been strong enough to keep premiums at high levels. U.S. **90% Silver Coin** (10.8%) is down only a couple cents per ounce from a month ago, making it once again close to the lowest premium form along with **100 Ounce Ingots** (10.5%).

After decades of thinking of 90% Coin as a common bullion-priced product, there is the possibility that these coins could develop a permanent numismatic premium. It has happened before. Circulated Morgan and Peace Dollars were trading at face value until the 1960s. When silver prices started rising, they were always at a premium to dimes, quarters, and halves. Also, over the past two years a national competitor promoted 90% silver half dollars by type (Walkers, Franklins, and 1964 Kennedys) with so much success that they still cost a premium above dimes or quarters to purchase "junk" 90% silver halves.

There is a lot of 90% Coin on the market. However, it is no longer in production and a good percentage has been melted over the years. This adds one more reason to prefer 90% Coin over ingots (in addition to an edge in liquidity, divisibility, legal tender status, and higher familiarity.

Common-date U.S. Morgan and Peace Dollars continue to climb in price in circulated grades. Now look for price increases in Mint State rolls and high-grade individual coins. Our offer of **Mint State 1921 Morgan Dollar Rolls** may be your last opportunity at these price levels.

We were also in the right place at the right time to acquire a group of **Mint State 40% Silver Half Dollars** at the "bid" side of the market. Supplies are limited so place your orders early.

Better-date U.S. Morgan and Peace Dollars and **U.S. Classic Silver Commemoratives** are difficult to locate and sell quickly. I anticipate significant price increases over the next 12 months.

Gold and Gold Coins

Gold finished today at $321.50, up $6.50 (2.1%) from last month. For the month, gold averaged over $320 for the first time in three years!

Although there was significant gold liquidation over the past month, there was also substantial demand from new and existing customers. As a result, premiums held fairly steady.

The low premium leaders are still the U.S. **American Arts Medallion** (2.8%), Austria **100 Corona** (2.9%), and South

(Continued on page 4)

(Continued from page 3)

Africa **Krugerrand** (3.0%). The British **Sovereign** (6.0%) continues to be the price leader among smaller gold coins.

The supply of other lower premium European gold coins like the Swiss **20 Franc** (7.5%) and the France **20 Franc Rooster** (7.5%) remains thinner but not yet in a shortage situation.

The recent strength of the Euro has made gold relatively cheaper in Europe. To a large degree, the regular supplies of gold coins from Europe to the U.S. have ceased. In fact, as I noted earlier, such coins as lower-priced U.S. $20.00 Gold Double Eagles are being shipped back to Europe.

Premiums on circulated and Mint State **Common-Date U.S. Gold Coins** have largely held steady.

Finding bargain-priced groups of **Better-Date U.S. Gold Coins** continues to be a challenge. This month, we were fortunate to uncover a small hoard of **Mint State-61 1908 With Motto $10.00 Indians**. This is a date rare enough that we have never offered it before. When Allan Beegle sought additional specimens at the Long Beach show, there were none anywhere! See our brochure for details.

In the process of purchasing coins from dealers and the public, we encounter a wide variety of **World Gold Coins and Sets**. See our flyer for some of the more interesting items that we have recently acquired.

The Month

Gold Range	$11.00	3.5%
Net Change	+6.50	
Silver Range	.18	4.0
Net Change	+.00	
Gold/Silver Ratio		71.9
Net change		+1.4
Platinum Range	34.00	6.3%
Net Change	+29.00	
Platinum/Gold Ratio		1.76

Date	Gold	Silver	Platinum
Sep 04	315.00	4.47	538.00
Sep 05	318.25	4.51	540.00
Sep 06	319.75	4.51	543.00
Sep 09	321.25	4.58	554.00
Sep 10	318.00	4.56	549.00
Sep 11	316.50	4.55	547.00
Sep 12	319.00	4.59	552.00
Sep 13	316.50	4.55	555.00
Sep 16	317.00	4.55	555.00
Sep 17	316.75	4.57	550.00
Sep 18	320.50	4.62	555.00
Sep 19	322.50	4.64	566.00
Sep 20	322.00	4.63	558.00
Sep 23	322.75	4.63	568.00
Sep 24	326.00	4.65	572.00
Sep 25	322.25	4.58	560.00
Sep 26	320.25	4.51	558.00
Sep 27	320.00	4.49	559.00
Sep 30	324.00	4.53	563.00
Oct 01	321.00	4.47	569.00
Oct 02	321.50	4.47	567.00

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

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

LCS Again Nominated For Michigan Retailer Of The Year!

For the third time in four years, Liberty Coin Service was honored with a nomination for Michigan Retailer of the Year. This award, sponsored by the Michigan Retailers Association, Michigan Newspapers, Inc., and Michigan Talk Radio Network, annually recognizes three Michigan retailers, in the small, medium, and large volume categories, for their public service contributions. LCS is a nominee in the medium volume category.

This year, LCS was nominated for General Manager Pat Heller's work increasing public involvement in submitting designs for the forthcoming 2004 Michigan State Quarter and his active service on the Michigan Quarter Commission.

In 1999, LCS was nominated for the leadership roles of Pat Heller and Senior Numismatist Allan Beegle resulting in the enactment of a Michigan sales tax exemption for the retail sales of rare coins and precious metals. In 2000, LCS was again nominated for outreach efforts that brought the State Quarter program into hundreds of area school classrooms to use as teaching aids and for promoting the educational value of coin collecting to thousands of schoolchildren.

Winners of the 2002 awards will be announced October 15.

You Asked Us

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

Q: When will the design of the 2004 Michigan Quarter be decided? *Received from several customers.*

A:When the final design for the 2004 Michigan Quarter will be selected is very much up in the air.

When the five final designs were forwarded to the U.S. Mint this past April, it was anticipated that the approved design would be returned late in 2002, enabling current Michigan governor Engler the honor of announcing the winner before year end.

However, all of the 2003 State Quarter designs are still stuck in the evaluation process at the Mint. Until they are cleared out, no 2004 designs will get attention.

Most likely, the approved designs for the Michigan Quarter will come back to the new Michigan governor in the spring of 2003. It is likely that the winning design will be announced by mid-year. We will keep you posted.

—Pat Heller, LCS General Manager and member, Michigan Quarter Commission

Singapore: An Appreciation

As I reported last month, I was flying in the Far East on September 11. My destination was Singapore, a city-state of 4 million residents at the southern tip of the Malay peninsula.

Singapore is a fully developed nation with per capita GDP higher than $20,000! Though small, it claims to have the world's busiest seaport.

What impressed me the most were the residents. Imagine the attitude of a country where life is pretty good and almost everyone expects it to be better in the future. Even more, people across the board seemed to feel personally responsible for helping improve the future. I wish we could be so positive in America.

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 $79.00 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.