

# Liberty's Outlook

Volume 10 Issue 10 Liberty Coin Service's Monthly Review of Precious Metals and Numismatics October 6, 2004

## Gold And Silver Hit Six Month Highs!

### P.3. Rare Coin Profits To Take Now!

When gold closed in U.S. markets at \$419.25 last Friday, that was its highest close since it was \$419.75 on April 12.

A six-month high for gold spot might not seem that impressive. But it is within 2% of the \$427.50 close on April 1, 2004, which was the highest gold spot since December 1988!

When silver closed in U.S. markets at \$7.21 today, that was its highest close since it settled at \$8.20 on April 16. Today's price is higher than almost all silver spot prices from late 1987 through the end of 2003! The highest silver price in that 16-year period was \$7.23 on February 5, 1998, when the silver supply squeeze wrought by mega-billionaire Warren Buffett's Berkshire Hathaway was at its peak.

Essentially, gold and silver prices today are near their highest prices in the last 16-17 years!

After the surge in the spring, metals retreated. Gold fell less than 12%, hitting a bottom of \$377 on May 11. Silver took a surprisingly large drop, falling almost one-third, to a low of \$5.53, also on May 11.

Another way to think of the gold and silver markets is that gold is up over 11% in the past five months while silver jumped more than 30%!

Both gold and silver have strong fundamentals, as I have discussed

in detailed analyses in the past few months. *(These analyses have been widely reprinted or referenced by other investment writers so you may have seen this information in other sources. However, readers of Liberty's Outlook read it here first).*

To quickly summarize, both gold and silver are experiencing long-term supply shortages. New mine production and recycled supplies simply cannot rise enough to offset growing demand. Technological obstacles to increased production would take years to overcome even if the prices of these metals doubled!

In the case of gold, the mines have further reduced supplies by delivering a significant portion of current production to close out pre-sold contracts instead of making it available as new supplies.

Also, the massive levels of central bank gold sales over the past decade are on the brink of subsiding. The largest government seller of gold, Switzerland, will finish its liquidation program in the next few months.

Without rehashing the details again (please contact us to request copies of the July and August issues of *Liberty's Outlook* or you can read them on our

#### Summary Of Current LCS Recommendations For Precious Metals and Rare Coins

*How much of your total net worth should be in precious metals and rare coins?*

	<u>Conservative</u>	<u>Moderate</u>	<u>Aggressive</u>
	5-10%	15-20%	20-33%

*How much to allocate for each category of precious metals and rare coins?\**

	<u>Conservative</u>	<u>Moderate</u>	<u>Aggressive</u>
Gold	40%	35%	25%
Silver	60%	55%	50%
Rare Coins	0%	10%	25%
TOTAL	100%	100%	100%

\*Platinum and palladium both have volatile markets with long-term supply/demand fundamentals that are not as attractive as those for gold, silver or rare coins. While either or both may outperform gold, silver or rare coins in the short- to long-term, to be conservative we have omitted them from our allocation.

website at [www.libertycoinservice.com](http://www.libertycoinservice.com)), I anticipate continued overall strength in the gold and silver markets.

In fact, I contend that we are in the early stages of bull markets in both metals.

Last month I said that it would not surprise me to see gold hit \$450 before the end of 2004. That could still happen.

I also anticipated that silver

*(Continued on page 2)*

**Inside this issue:** Gold And Silver As Insurance page 2  
Chinese Gold Demand To Triple page 4  
High Grade Common Date US Gold Up 10%! page 4

*(Continued from page 1)*

might top \$7.00 as early as the first week in September and could touch \$8.00 by the end of the year. Well, it took slightly longer for silver to close above \$7.00, but it is still quite possible for silver to reach \$8.00 in the next twelve weeks.

As I discussed last month, the rising price of oil, currently at record levels (if you ignore the effects of inflation), is bound to add to the demand for precious metals. Knowing this, professional traders have been adding to their gold and silver positions as oil prices have climbed.

I must emphasize that effect of rising oil prices is not the only reason for gold and silver prices to increase. It is only a minor factor in the overall picture. However, its marginal impact in today's market can be huge. With both the gold and silver markets poised for significant price jumps, any minor factor that captures the attention of investors can have a disproportionately large effect on the prices of precious metals.

The other reasons why I am so confident of higher gold and silver prices in the coming months is that there is little other political or economic news that could deliver major relief to worried investors.

I just do not expect, for instance, that the Federal government will miraculously balance the budget, or that the U.S. record high balance of trade deficit will be eliminated, or that peace will break out in Iraq and Afghanistan and terrorist activity will cease.

Maybe good news will come from some areas, but there are so many subjects that worry investors that it is hard for me to visualize a world where investors will feel comfortable holding only paper assets.

What is the prudent investor to do now?

## **Gold And Silver As "Insurance"**

Even though I expect gold and silver to do well in the future, I do not advocate putting a high percentage of one's net worth into them.

Instead, think of holding gold and silver as insurance against the possible calamities that might befall your paper assets like stocks, bonds, and currencies.

Companies can fail, making their stocks and bonds worth little to nothing. Governments can be overthrown or suffer ruinous inflation, destroying their currencies and bonds.

Banks in major nations including the U.S., Germany, Japan, and China are operating closer to the risk of bankruptcy than they have in years past, putting almost all paper assets at risk—and perhaps even the mortgages that homeowners owe.

Note that I don't expect there to be one massive global collapse, where a multitude of political and economic problems wring devastation—though there is some possibility of that.

Instead, you need some insurance to protect you against only one or two of these calamities hitting you.

For example, Indonesians who owned gold suffered little from the nation's currency collapse in 1997,

We have some customers and friends who are Southeast Asian refugees who used gold to bribe their way out of their homelands.

Hitting closer to home for most of our readers, if the prices of heating oil and natural gas soar this winter (as I anticipate), you might be able to cash in some profitable precious metal investments to soften the blow.

For even the most conservative people, I recommend that 5-10% of their net worth be held in "hard assets" like gold, silver and rare coins. For the bulk of the populace, I suggest 15-20% of your net worth be allocated to hard assets. In the most aggressive stance, I suggest up to one-third of one's net worth be allocated to hard assets.

*(Note: I personally haven't followed this advice. Through the ownership of Liberty Coin Service, my investment in hard assets exceeds 50% of my net*

*worth. I think that is dangerously high for almost any investor, and do not recommend that you do like I do.)*

Once deciding how much of your net worth you wish to put into hard assets, the next decision to make is which hard assets to own.

Bullion ingots and bullion-priced coins are the most conservative hard assets to own. They have the tightest buy/sell spreads, far less concerns over technical quality of the product, and greater liquidity. For many people, simply owning bullion-priced gold and silver is the most comfortable for them.

I have skewed my recommended allocation in favor of silver over gold. Silver is a smaller market that is more volatile, so it has the potential to make a greater percentage profit in a shorter period of time than gold. From current levels into the long term, I also expect that silver will outperform gold.

However, my crystal ball isn't always accurate, so I still include a substantial position for gold among hard assets.

Rare coins have the potential to increase by a higher percentage than gold and silver, but with increased profit opportunity you also have greater risks. Rare coins have wider buy/sell spreads than bullion, are less liquid, and require careful attention to the quality of items you acquire. Because of the greater risks, I generally would not recommend that rare coins make up more than 10% of your hard assets. Even in the most aggressive circumstances, I would limit rare coins to 25% of your hard asset holdings.

To calculate your net worth, simply add up the current market value of all your assets, then subtract all of your liabilities. The result is your net worth. When you have calculated that number, multiply it by the percentage you wish to hold in hard assets. Once you have the calculation of your desired hard as-

*(Continued on page 3)*

(Continued from page 2)

set holdings, multiply that figure by your allocation among gold, silver and rare coins. When you have calculated these target figures, compare them against your current holdings to see where you may need to make additional purchases.

Let me take a simple example. Say that family A has \$400,000 in assets and \$200,000 in liabilities. Their net worth would be \$200,000. Of this, the range of recommended hard asset holdings, depending on whether their outlook is conservative, moderate or aggressive, would be \$10,000 to \$66,667.

Then, depending on how conservative or aggressive they are within their hard asset holdings, they could allocate anywhere from 25-40% of that figure for gold bullion-priced products, 50-60% for silver bullion-priced items, and 0-25% for rare coins.

There are a couple safeguards to keep in mind in purchasing hard assets. First, take delivery or have your purchases stored in independent secured vaults (most are in Delaware because of the lack of sales and property taxes there). Over the years, we have seen a number of charlatans, and even good companies, that have stored merchandise for customers before failing and leaving their customers with nothing.

In addition, an obscure regulation issued to implement the USA Patriot Act of 2001 requires coin dealers who do not deliver customer merchandise within 30 days of receipt of payment to report the purchaser to the government. So, now you have even more incentive to take prompt delivery—increased privacy.

Second, for most people I recommend purchasing physical gold or silver, not paper certificates or contracts. Some companies that have sold certificates have left their customers high and dry when they folded. Even the current gold certificate programs sponsored by the Perth Mint and World Gold Council have potential problems over the

taxation of such purchases (valued added and property taxes).

If you get the merchandise physically in your possession, you don't have to worry about losing it because of the business failure a vendor.

Although there is some chance the prices could drop slightly for current levels, I don't expect to see gold go much below \$400 or silver much under \$6.00 at the worst. With so much upside potential, it is time to buy now rather than waiting for the "bottom."

Your inquiries are welcome.

### **Rare Coin Profits To Take Now**

Even though I'm convinced that we are in the early stages of the next great bull market for rare coins, there are some coins that have already jumped so high so fast that, at best, we think they only have limited upside in the future. Even if they don't fall in price, they may stall to wait for other coins to catch up to them.

This list has been developed with the combined two centuries of collecting and dealing experience of the top five traders here at LCS. It would be a surprise if every coin listed underperformed the market from now into the future, but we suspect that most will be on target.

1. Certified Ultra-High Grade Modern Coinage at super high prices. In years past, higher quality coins have usually outperformed lower quality coins. This makes it easy for marketers to take relatively common coins, have them graded in top condition, then try to sell them as being rarer than they really are.

This gimmick works because some coins are so common and low-priced that no one sends them into the grading services. Marketers who can get a coin in a high grade can then claim the it is valuable because it has a low certified population. We have never advocated the acquisition of such coins, but we have seen a growing number of collections with such pieces.

Here's an example. The 1962 Roosevelt Dime lists in *Coin Values* in Proof-65 quality at \$4.00. You can purchase them in most coin shops for less than \$2.00. In Proof-69 Deep Cameo condition, it lists for \$300! Even though the coin is normally of so little value, the Professional Coin Grading Service (PCGS) and Numismatic Guaranty Corporation (NGC) have already certified 72 specimens in Proof-69 Deep Cameo quality (NGC calls it Ultra Cameo). Because of the high catalog value, this coin's population is bound to increase over time. It is quite possible that thousands of specimens could be so graded if enough coins were submitted. This coin in top quality is certainly not a rarity, and we don't think it is worth \$300. A value around \$20 might make more sense.

If you have such coins that catalog for huge multiples of typical specimens, expect them to become less rare and lower priced in the future. Sell them now. We can help you evaluate which are worth the high price and which appear to be overvalued.

2. 1907 High Relief \$20.00 St Gaudens. These coins are just to common in all grades for the prices at which they trade. When we have a customer looking for a particular grade, we can usually find a half-dozen pieces quickly available. Prices are already up to mid-1989 peak levels.

3. Bust Dollars in About Uncirculated or higher grades. Prices have risen sharply for these coins in the past couple of years, and they are now trading at two to four times their levels in June 1989. It is a lot easier to find coins than the prices would indicate.

4. 1889-CC Morgan Dollar in Circulated Grades. These coins have gone nuts this year. They are now trading at three to six times where they were in mid-1989! As prices climbed, these coins seem to be coming out of the woodwork. We have probably handled more specimens this year than in the past five years

(Continued on page 4)

(Continued from page 3)

combined! We have seen some softness lately, so this would be a great coin to sell soon.

There are a number of other coins where prices have gone up enough that we are seeing some buyer resistance. If you would like us to make recommendations on your holdings, you are welcome to fax us a list at 517/351-3466 or send an email to path@libertycoinservice.com.

If you want to trade some of these coins for other pieces with better appreciation prospects, we can help you with the swap.

### Gold and Gold Coins

Gold finished today at 418.00, up \$9.50 (2.3%) from five weeks ago.

Gold Fields Mineral Services recently issued an in-depth report on the gold market in China. It concurs with the analysis of others that the opening of China's market to public ownership of gold will eventually triple demand in that country. When this happens, China will rival India as the world's largest gold consuming nation. By itself, this rise in Chinese demand could increase worldwide demand by about 10% within the next decade! For a market already suffering a long-term supply shortage, that should exert enormous upward pressure on the price of gold.

The forms of gold available at the lowest premium to metal value remain the Austria **100 Corona** (3.5%), South Africa **Krugerrand** (3.7%), and U.S. **American Arts Medallions** (3.7%). Among smaller coins, the British Sovereign (7.7%) remains the low cost favorite.

Last month, I noted that the dip in the prices of **High Grade Common-Date U.S. Gold Coins** was likely to be a temporary buying opportunity. It was. Prices are up an average of about 10% since then. The hoard of high quality \$20.00 Liberties that filled the market a couple months ago has been absorbed.

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### The Month

Gold Range	\$21.75	5.3%	
Net Change	+ 9.50		
Silver Range	1.01	14.9%	
Net Change	+42		
Gold/Silver Ratio	58.0		
Net change	-2.2		
Platinum Range	55.00	5.9%	
Net Change	-27.00		
Platinum/Gold Ratio	2.02		
<b>Date</b>	<b>Gold</b>	<b>Silver</b>	<b>Platinum</b>
Sep 01	408.50	6.79	870.00
Sep 02	406.00	6.77	867.00
Sep 03	400.50	6.55	855.00
Sep 06	closed		
Sep 07	397.50	6.20	840.00
Sep 08	399.50	6.17	841.00
Sep 09	398.50	6.16	819.00
Sep 10	401.75	6.14	829.00
Sep 13	404.00	6.18	839.00
Sep 14	405.75	6.20	844.00
Sep 15	404.75	6.26	848.00
Sep 16	404.50	6.28	841.00
Sep 17	404.50	6.25	841.00
Sep 20	405.25	6.25	840.00
Sep 21	408.25	6.34	850.00
Sep 22	407.25	6.34	845.00
Sep 23	411.00	6.45	850.00
Sep 24	408.00	6.41	851.00
Sep 27	409.00	6.53	854.00
Sep 28	412.25	6.59	872.00
Sep 29	412.75	6.67	844.00
Sep 30	418.50	6.92	858.00
Oct 01	419.25	6.92	858.00
Oct 04	414.00	6.75	827.00
Oct 05	418.00	7.07	838.00
Oct 06	418.00	7.21	843.00

London Silver Market Premium To New York Silver Market = 1¢

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

\$1.00 through \$10.00 Common-Date U.S. Gold Coins in high grade, still trading at a fraction of their prices from 15 years ago.

What could be even better than that? How about **Better-Date U.S. Gold Coins**, especially those that sell for surprisingly close to the prices of common-date issues. For instance, this month we offer a modest group of **Choice Mint**

**State-63 1908-D No Motto \$20.00 St Gaudens**. In top quality, it is 100 times rarer than the 1924 date, yet you only pay about 35% extra to own the scarcer coin. It is a perfect example of why collectors are scooping up rarer U.S. Gold Coins, when and if they can be found. See our offer for details.

Even though the price of gold is higher than just a year or two ago, it is still possible to locate bargains in **World Gold Coins**. Recently, we purchased a lovely group of **Mint State Australia 1897-M Veiled Head Victoria Sovereigns**. It is only the third group of any Mint State Veiled Head Sovereigns we have ever handled and the first one of this less-common date. Even though catalog values were established using a gold price of \$285, we can still offer it at a discount. Check our enclosed flyer.

### Silver and Silver Coins

Silver closed today at \$7.21, up 42 cents (6.2%) from a month ago.

When silver neared \$7.00 at the end of last week, we saw a brief surge in liquidation. Now that silver has climbed solidly over \$7.00 (though two days do not guarantee an established trend), potential buyers have resumed waiting for even higher prices.

Still, higher prices have knocked down premiums on physical silver. U.S. **90% Silver Coin** (2.4%) is still the low premium favorite, and also has the best liquidity and divisibility of the most popular forms. Also worth considering are **100, 10, and 1 Oz Ingots** (7.8-6.1%).

**Common-date Mint State Morgan and Peace Dollars** are continuing to gradually rise. **Better-Date Morgan and Peace Dollars** are rising faster. If you have the opportunity to acquire some of the rarer issues that are selling at a tiny fraction of peak prices, don't hesitate to add them to your holdings. This month, we enclose an offering of some **Better Date Morgan Dollars**. They will go fast.