Liberty's Outlook

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As U.S. Elections Near . . .

Be Careful About Market Manipulations!

The "Fake" Dow Jones Industrial Average Record High
Central Banks Suddenly Dump Gold
New Policies Reduce Oil Demand
"Hidden" Hedge Fund Bankruptcies

Yesterday, the financial news was abuzz over the Dow Jones Industrial Average (DJIA) reaching a new all-time high, finally eclipsing the previous record set in early 2000.

Normally such news is taken as a positive sign for a strong economy. That is how most news coverage is treating it.

However, I am highly suspicious that markets were manipulated to peak a few weeks before U.S. elections to help incumbents gain reelection and maintain their political powers.

The so-called peak in the DJIA also isn't real, if you consider the bigger picture.

First, you have to consider the effects of inflation. Adjusting the DJIA for inflation since 2000, yesterday's index of 11,727.34 would be just under 10,000. In other words, the DJIA has effectively declined 15% since the last "peak"

Also consider how many ounces of gold it would take to buy the index. When the Dow hit its previous peak of 11,722.98 on January 14, 2000, the spot price of gold was $283.75. In effect, it would have taken the value of 41.31 ounces of gold to buy the DJIA. At yesterday's gold close at $576.50, that means it would now only take 20.34 ounces of gold to purchase the DJIA—a decline of more than 50% relative to gold over the past nearly seven years!

Another way of examining the so-called record DJIA is to look at the performance of the individual stocks in the index. None of them hit all-time highs yesterday. In fact 21 of the 30 stocks in the index (Caterpillar, McDonalds, JP Morgan, Walt Disney, Wal Mart, American International Group, Honeywell, Alcoa, General Electric, IBM, Pfizer, Verizon, AT&T, Hewlett Packard, Home Depot, Coca-Cola, DuPont, Merck, Microsoft, General Motors, and Intel) were at least 20% below their all-time highs! Twenty of the stocks reached their all-time highs between 1998 and 2000!

The stakes in the elections are especially high for the politicians. The Republicans have control of the executive and legislative branches. Any success by the Democrats in gaining control of either chamber of Congress will bring on a plethora of investigations about the conduct of the Republican leadership.

In order to improve their reelection prospects, the Republicans want voters to think the economy is doing well. There are several ways that this could be manipulated. Here are a few other examples of recent developments that coincidentally all have the effect of making the voters complacent with the status quo:

Central Banks Dump Gold. In the first 11 months of the annual agreement by many major central banks to limit their gold sales to 500 tons (the accounting period runs from September 27 to the following September 26), barely 350 tons of gold were sold. Suddenly, sales in September soared to over 50 tons. Is it an accident that sales soared 57% just before U.S. elections, helping knock down the price of gold?

Manipulation Of Oil Prices.

On August 9, Goldman Sachs announced that it was sharply reducing the gasoline futures component of its GSCI commodity index, the world's largest commodity index. Whereas gasoline futures made up 8.72% of this index as of June 30, 2006, it was down to only 2.3% of the index by the end of September.

As the GSCI is a $100 billion index fund, this shift represents the dumping on the market of $6 billion of gasoline contracts in the past two months. Other traders who have mimicked the GSCI also sold off gasoline contracts

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to remain consistent.

Goldman Sachs, as most of you know, is the firm whose immediate past chairman, Hank Paulson, was appointed by U.S. president Bush to be Secretary of the Treasury less than five months ago.

What you may not know is how intertwined are Goldman Sachs and the federal government. In April, former Goldman Sachs official Joshua Bolten was promoted to be president Bush's chief of staff. On June 9, president Bush nominated Goldman Sachs executive Randall Fort to be Assistant Secretary of State. About the same time, former Goldman Sachs executive Robert Zoellick announced that he was resigning as Deputy Secretary of State and returning to Goldman Sachs.

Can it be just a coincidence that Goldman Sachs is manipulating one of their indices in a way and at such a time that may help the Republicans retain political power?

Then you throw in the shift of policy by the U.S. Department of Energy for the Strategic Petroleum Reserve (SPR). The SPR had purchased massive quantities of oil over the past several years.

The added demand caused by these purchases helped push up prices.

Two days ago, the Department of Energy announced that it will postpone until the second quarter of 2007 collecting 1.7 million barrels of oil owed to it by oil companies. This oil was to replace oil that the government loaned to oil companies after Hurricanes Katrina and Rita in 2006.

The federal government also announced that it will delay replacing other oil in the reserve that had been sold in 2005.

In response to these developments, world oil prices have fallen.

"Hidden Hedge Fund Bankruptcies. The dark side of the supposedly strong U.S. stock markets and of falling commodity prices is that it is wreaking havoc in the hedge fund industry.

So many hedge funds have been started in the past few years that they collectively hold over $1.2 trillion in assets! Unfortunately, the growth in the industry has added so much competition for the more profitable opportunities that the funds are being forced to pursue less attractive investments or pursue those with greater risks of loss than in the past. As a result, performance by hedge funds as a group has deteriorated.

In 2004, 4.7% of the hedge funds in existence at the start of the year closed. In 2005, 11.4% of funds open at the start of that year shut down. I was unable to find out comparable 2006 data, but the results may be much worse.

For instance, Vega Asset Management was one of the world's largest hedge funds operators a few years ago. Two years ago, it was managing $12 billion in assets. Now its assets are only worth $3 billion. About half of that is in the Vega Select Opportunities hedge fund which lost 11.5% of its value in September to make its overall loss so far in 2006 come to 17.5%. Vega says it has no plans to cease operations.

In the past month or so Amaranth Advisors LLC announced that it will sell its assets after taking losses of $6 billion. Narragansett Management LP said it will return $800 million to investors.

Much of the losses have been sustained as oil, precious metals, and other commodity prices have declined in the past few months.

I have heard rumors that there are some hedge funds facing imminent bankruptcy of such a large scale that they could cause a financial crisis if any were to occur. Such rumors may or may not be true, but they are definitely plausible in the current environment. Even former Federal Reserve chair Alan Greenspan admitted that the failure of the Long Term Capital Management hedge fund in 1998 came close to inflicting widespread calamity in the economy.

These same rumors also include the claim that politicians and their friends in business are doing all that they can to keep the hedge fund problems out of the public eye until after the elections.

There are other indications of behind the scenes manipulations to hold up the value of the U.S. dollar until after the elections. It is a typical pattern for economic statistics to be rosier before an election before they turn down just after the election. I don't see things being any different this time around.

The fundamental long-term shortages of gold and silver supplies are continuing. Nothing in the financial news of the past month has changed them. Even GFMS, the world's largest precious metals consultancy, announced in mid-September that they think there is a good chance gold will top $700 by year end and go much higher in 2007. So, even though gold and silver prices weakened in September, I don't think it is any sign that their prices have peaked. In my judgment, we are still in the early stages of a major bullion boom that just might take gold all the way to $2,000 by the end of 2007 and silver over $50.00.

You are welcome to try to make money in paper assets denominated in U.S. dollars, but don't forget to make sure you have insurance holdings of precious metals and rare coins to protect you from any political or economic calamity, large or small

In the past, I considered a prudent middle-of-the road allocation to precious metals and rare coins to be 5-10% of your net worth. I now think it would be prudent for 10-20% of your net worth to be held in hard assets.

Rare Coin Markets More Active As Bullion Volume Slows

When gold, silver, and platinum peaked in the late spring at multi-decade or all-time highs, a lot of investors got a wake up call that their U.S. dollar-denominated paper assets might not be that safe, even if the sagging real estate market had not already gotten their attention.

When gold and silver prices fell sharply in the early summer, investor demand for physical metals soared.. It seemed that most investors who planned to build the hard asset positions took action. Now that these recent lower prices have continued, though still well above levels of late last year, demand has slowed down.

That is not what is happening with rare coins. Generally, prices in the numismatic market have been rising slowly for the past two years or so.

Parts of the market paused in the summer at the time that the U.S. **American Buffalo** Gold Coin was introduced. With well over a half million uncirculated and proof coins already sold, that means that collectors and investors have spent over $300 million purchasing the new coins.

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In September, we enjoyed a significant surge in collector demand for rare coins again. I suspect that one of the reasons is that the collectors who wanted to buy Buffaloes have now done so, and are going back to their other collecting interests. With what I expect will be a temporary dip in gold an silver prices, I suspect that a lot of rare coins are available today at prices that will prove to be real bargains a year from now.

Worldwide 2006 Gold Mine Production Drops

You might expect that higher gold prices would encourage mining companies to bring more product to market. Well, it doesn't quite work that way in the precious metals markets.

It takes time, literally several years, for a newly discovered mine site to be developed and go into operation. Even reopening mines that were closed because they were not economic at lower gold prices can take six to twelve months.

Even though the price of gold has been rising for the past four years, worldwide mine output in the first half of 2006 declined 2% from the first half of 2005, according to GFMS. Many of the world's largest gold producing nations reported lower output, including South Africa, Canada, the United States, Australia, and Indonesia. The decline in Australia was attributed to damage wrought by a series of cyclones. The drop in Indonesia was largely due to reduced operations at the Grasberg mine, perhaps the world's largest individual gold mine (and also one of the world's largest copper mines). After a series of armed clashes with illegal miners at the Grasberg mine early in 2006, operations were cut back to allow greater protection for the company's employees.

GFMS projects that worldwide production will rise in the second half of 2006 so that the annual output should equal that of 2005.

U.S. Mint Foul Ups Rile Collectors And Investors

The introduction of the U.S. Gold Buffalo in June has brought a new set of problems to the U.S. Mint, some of which have offended collectors and investors so much that they have cancelled orders placed with the Mint.

The first problem involves the method of manufacturing the uncirculated Gold Buffaloes. To prevent the unstruck planchets from sticking in the vertical feed mechanism in production, to reduce friction during strike, and to make it easier for struck coins to be ejected from the dies, the coin blanks are lubricated with a small amount of red-colored oil.

When these coins are struck in the press, several of them retain a small amount of oil residue near the right side of the obverse and reverse. As a result, several coins exhibit a reddish tint in these areas inside their original U.S. Mint packaging. This problem has only been observed on the uncirculated issues, not the proofs.

Before this problem was understood, the process of encapsulating these coins at the grading services frequently trapped this oil on the surface of the coin. Most of the so-called "first release" coins that have been certified show this discoloration.

There are solvents that will remove the oil from the coin's surface, but this can only be done by removing the coin from its original packaging. Even worse, most "coin cleaners" that are marketed will not properly remove this residue and actually impair the appearance of the coins.

When questioned, the U.S. Mint assured the public that this oil does not affect the bullion value of the coins.

Another problem that arose, as I forecasted, was that the demand for the gold Buffalo has been so strong that it has cut severely into demand for the gold American Eagle. The Mint had already ordered blanks for all four sizes of gold Eagles in anticipation of sales levels much higher than has happened in the past few months. In fact, the U.S. Mint has not sold *any* uncirculated 1/10 or 1/4 Oz Gold Eagles since before the Buffaloes were introduced. It has sold only 2,000 1/2 Oz and 14,500 1 Oz Gold Eagles since June.

Since investors are no longer purchasing uncirculated gold Eagles, the Mint created another variety that could be marketed direct to the public. The Mint has burnished the blanks, which is a special polishing process, and added the "W" West Point mintmark do the dies to be struck on each coin. The existing uncirculated bullion issues are struck in West Point, but lack the mintmark and are not struck on burnished planchets.

The Mint has also gone ahead to do the same with uncirculated Silver Eagle Dollars and Platinum Eagles. Uncirculated specimens struck on burnished dies and featuring the W mintmark can be ordered direct from the Mint. To make the Platinum Eagles more attractive, since the Mint has sold only 500 1 Oz, 600 1/2 Oz, 600 1/4 Oz, and no 1/10 Oz in the past six months, the reverse design has been changed to match that on the 2006 proof issues. Before now, all uncirculated Platinum Eagles featured the obverse and reverse design used on the original 1997 proof issues, while proofs from 1998 onward have had different reverse designs each year.

Creating such products is not what has upset the public, but rather it was the method of marketing them. The Mint first announced they would take orders starting August 30 for a two coin set containing the 1 Oz Gold and Silver Eagles at a price of $850. The announcement proclaimed also that only 20,000 sets would be sold.

A number of collectors jumped up to order these sets, assuming that they would become instant rarities like the 1995-W Silver Eagle Dollar (mintage 30,125) that is now worth well over $5,000.

Four weeks later, the Mint revealed that they would take orders for unlimited quantities of the individual coins, with the 1 Oz Gold Eagle priced at $720 and the Silver Eagle Dollar at $19.95. The combined price for the individual coins, which are the exact same coin as in the sets, comes to only $739.95 instead of $850.

Purchasers of the 2-coin sets are upset, because the Mint's printed and online sales literature led them to believe that the mintages would be modest.

In response to the furor, the Mint has reminded customers that orders may be cancelled before delivery and that buyers have a return period after receiving the coins, to get their money back. In

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addition, the Mint has changed the sales literature on their website to disclose that the coins in the set may also be ordered individually in unlimited quantities.

A look at the track record of the 20 years of the Gold and Silver Eagle program, and the nine years of the Platinum Eagle program, shows that the buyers who made the most money purchasing these coins are those who purchased the regular uncirculated issues! Those who purchased the proof and other special issues direct from the Mint either lost money or simply made lower profits. A handful of proof Silver Eagles have enjoyed nice price increases. None of the proof Gold or Platinum Eagles have appreciated except from the rise in bullion prices!

The recent marketing steps taken by the U.S. Mint tell me that the days of the Gold Eagle program are numbered. I project that the bullion version of these coins will be ended by 2008.

Incidentally, a number of customers have asked if it was a good idea to purchase the proof Buffalo gold coins. The authorized mintage for this coin is 300,000, with well over 200,000 already purchased. It is already one of the all-time highest mintage proof gold coins in U.S. Mint history. The mintage is so huge that I don't expect them to hold their current premium above gold spot. In fact, LCS has already been able to purchase occasional quantities of these coins from other dealers for less than the Mint's $800 price tag. Consider yourself warned.

Gold and Gold Coins

Gold closed today at $562.00, down $71.50 (11.3%) from last month. This almost tied the lowest gold price of the last seven months, $561.75 on June 14. Already gold has jumped several dollars in the aftermarket today as buyers take advantage of these lower levels.

The onslaught to knock down gold and silver prices might not be finished yet. Before the market turns around, gold may even test its early January low for 2006 of $526.50. Whether it falls further or not, I expect prices today will prove to be bargains within the next few months.

For much of September, demand for physical gold was down from the past several months. With some of the calls we have been receiving this afternoon, this lull may be over.

The low premium price leaders continue to be the Austria **100 Corona** (2.9%), South Africa Krugerrand (2.9%), U.S. **American Arts Medallion** (3.0%), and Mexico **50 Peso** (3.0%).

Some **High-grade Mint State Common-Date U.S. Gold** coins have fallen with the decline in spot prices in the past month. There are several attractive opportunities at a fraction of the prices at which they were selling at the last major market peak in mid-1989.

Even better than these are many **Better-Date U.S. Gold Coins.** It is possible to acquire coins with many times the rarity of the common-dates, yet only pay a bit more than you would for the common issues. Our enclosed offering of **Mint State-62 and –63 $5.00 and $10.00 Liberties from the 1880s** is a perfect example.

The Month

Gold Range	71.50	11.3%
Net Change	-71.50	
Silver Range	2.36	18.1%
Net Change	-2.36	
Gold/Silver Ratio		52.5
Net change		+4.0
Platinum Range	192.00	15.2%
Net Change	-192.00	
Platinum/Gold Ratio		1.90

Date	Gold	Silver	Platinum
Sep 06	633.50	13.06	1,260.00
Sep 07	617.00	12.61	1,241.00
Sep 08	609.50	12.16	1,214.00
Sep 11	590.00	11.10	1,181.00
Sep 12	587.00	11.00	1,194.00
Sep 13	589.00	11.06	1,173.00
Sep 14	579.25	10.84	1,167.00
Sep 15	576.25	10.76	1,151.00
Sep 18	586.00	11.18	1,154.00
Sep 19	576.75	10.83	1,142.00
Sep 20	580.00	11.02	1,128.00
Sep 21	582.00	11.14	1,127.00
Sep 22	589.00	11.20	1,136.00
Sep 25	590.00	11.21	1,122.00
Sep 26	591.00	11.40	1,123.00
Sep 27	597.00	11.60	1,131.00
Sep 28	605.00	11.64	1,140.00
Sep 29	598.50	11.45	1,130.00
Oct 02	597.50	11.55	1,134.00
Oct 03	576.50	10.95	1,112.00
Oct 04	562.00	10.70	1,068.00

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 officially ended today at 10.70, a sizeable drop of $2.36 (18.1%) from four weeks ago. As I type this, after market prices are up almost 2% from the close. Silver is till well above its seven months low of $9.65 on June 14.

As with gold, physical demand has tailed off from the spring and summer months. Whether silver still has room to slide further before election day is hard to forecast. Whether it does or not, I expect that today's price level will be considered a genuine bargain by early 2007.

U.S. **90% Silver Coin** (1.0%) is my recommended form of owning physical silver. It is the most liquid, has high divisibility, and is the most widely traded form. I see no reason to pay an extra 50 cents per ounce to purchase **100 Ounce Ingots** (5.6%) that doesn't have those advantages, it just takes up slightly less storage space.

At the huge Long Beach Exposition in California three weeks ago, LCS Chief Numismatist was able to snap up a fresh group of **Gem Mint State-65 1900-O Morgan Dollars,** a better date coin that doesn't cost all that much more than common issues. We also acquired a sizeable group of **Mint State Rolls of 1963 Franklin Half Dollars** at the wholesale bid levels, so we can pass some savings on to you.

LCS Retail Store Manager Bob Sweet has been aggressively seeking more spectacular rare coins to follow up the complete sell out of his list three months ago. He finally found enough for another offering. See out enclosed offering of **Sweet Deals #2.**

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