Liberty's Outlook

Volume 13 Issue 10 Liberty Coin Service's Monthly Review of Precious Metals and Numismatics October 3, 2007

Gold Reaches 27-Year High!

Platinum Hits All-Time High! U.S. Dollar Falls To Record Low! Federal Reserve Chooses To Trash U.S. Dollar To Bail Out The Stock Market! World's Largest Bank Failure Since Great Depression!

Over the past few months, I have warned you to anticipate various financial calamities in the near future. In the past few weeks, these crises have been coming fast and furious.

Many governments and central banks seem lost, not knowing what to do, or when to do it, and to what degree. They seem to be reacting to the latest crisis rather than setting prudent policies for the medium or long term.

The U.S. Federal Reserve Open Market Committee faced a no-win position when it met September 18. No matter whether it raised interest rates, left them unchanged, or reduced them, a major crisis would ensue. It chose to drop a key interest rate by 0.5%

As a result—

- The value of the U.S. dollar has fallen almost 3% against world currencies in the past month.
- The gold market reached its highest price since January 1980.
- Silver is up almost 10% over the past four weeks.
- Platinum touched an all-time high.
- Private investors are much less willing to renew or make new loans, out of fear of the higher risk of not being repaid at all. The commercial paper market is continuing to shrink and a higher percentage of home sales are falling through because the borrowers are unable to obtain financing.

The one thing that did go right, at least temporarily, is the support for the U.S. stock markets. In fact, the Dow Jones Industrial Average hit an all-time high earlier this week. While it is true that none of the major U.S. stock indices have performed as well as gold thus far in 2007, many U.S. investors seem to be reassured that happy days lie ahead.

Even this little bit of good news only occurred after massive government infusions into the financial markets. Between the Federal Reserve, the Bank of England, and the European Central Bank, one analyst calculates that over $500 billion has been pumped into the world's economy in the past two months.

Cracks In Global Finances

1) I have previously discussed how the U.S. market for sub-prime mortgages, those loans made to borrowers with lower credit-worthiness, have foisted huge losses around the world. A big part of the problem has to do with the evolution in the style of operation of major banks.

In former days, most banks that granted mortgages kept the activity in-house. That meant that the lender had a major incentive to make sure that the borrower was likely to repay the debt.

However, keeping such receivables on the bank's books made the bank's operating statistics look less favorable to potential investors. The bank could appear more efficient and attractive to a potential investor if it simply sold its mortgage portfolio to someone else.

Unfortunately, this practice put more emphasis on making mortgages and less emphasis on determining that the borrowers were acceptable credit risks.

In order to get enough funds to make more mortgages, banks began to seek outside short-term funds. When such lenders started to demand the return of their funds, many banks faced a major problem.

Northern Rock, Britain's fifth largest mortgage banker is the latest victim of this aggressive loan practice. When the bank was unable to resell mortgages that it was writing, it faced a liquidity crunch.

Northern Rock cancelled a dividend payment to save cash as depositors started forming long lines outside the bank to close their accounts.

At first, the Bank of England declined to intervene in this bank run. When it became evident that North Rock's depositors were starting to panic, the Bank of England started loaning funds to support it (and also to reassure depositors at other banks). However, this move backfired as it caused even more customers to worry about the survival of the bank. The bank

2007 Year To Date Results

Through October 2, 2007

Precious Metals	
Platinum	+18.9%
Gold	+15.3%
Palladium	+4.5%
Silver	+3.9%
Numismatics	
MS-63 $20.00 St Gaudens	+17.6%
MS-63 $20.00 Liberty	+14.6
MS-65 Morgan Dollar	-6.7%
US Dollar vs Foreign Currencies	
Japan Yen	-2.7%
Switzerland Franc	-3.6%
China Yuan	-3.8%
Great Britain Pound	-4.1%
Euro	-6.7%
India Rupee	-10.0%
Canada Dollar	-14.4%
Brazil Real	-14.5%
U.S. Dollar Index 78.303	-6.5%
US and World Stock Market Indices	
Frankfurt Xetra DAX	+20.5%
NASDAQ	+13.7%
Dow Jones Ind Average	+12.7%
S&P 500	+9.0%
Russell 2000	+5.6%
London FT 100	+4.5%
Tokyo Nikkei 225	-1.0%
Intrinsic Metal Value Of U.S. Coins	
Lincoln Cent 1959-1982	2.46¢
Lincoln Cent 1982-date	0.80¢
Jefferson Nickel-non-silver	6.82¢
Roosevelt Dime 1965-date	3.10¢
Wash Quarter 1965-date	7.74¢
Kenn Half Doll 1971-date	15.47¢

Inside this issue:





Pat Heller at Silver Summit 2007. (left to right) with David Robinson—publisher of *Bull & Bear*, Bernard non NotHaus—chief architect of the Liberty Dollar and former mintmaster of the Royal Hawaiian Mint, Jeff Christian—Managing Director of CPM Group, Bill Murphy—Chairman of the Gold Anti-Trust Action Committee (GATA), and standing next to the main shafts inside the historic Sunshine silver mine.

(Continued from page 1)
run got worse.

The Bank of England eventually loaned Northern Rock a total of about $16 billion, which equaled about 1/3 of all the bank's customer deposits. That still was not enough to end the panic.

Finally the Bank of England jumped in with full force, contradicting its prior policy statements, by stating that it would guarantee that every depositor would be repaid in full. Once that happened, the bank run stopped.

Unfortunately for the Bank of England, it allowed Northern Rock's problem turn into the worst bank run in England since 1866 and the largest bank failure since the Great Depression. British taxpayers are left wondering just how much the government may be willing to commit to bail out other banks with similar problems.

2) Profits are plummeting at banks, brokers, and hedge funds. Citigroup, one of the world's largest banks, this week told investors to expect that third quarter profits would be about 60% lower than a year ago. The brokers are booking hundreds of millions of losses from their involvement with sub-prime mortgage instruments.

In theory, investors make investments with the expectation that their holdings will appreciate over time. This can happen if a company's profitability improves over time. If corporate profits are declining, the value of stocks will inevitably decline. The current euphoria over the Dow Jones Industrial Average record is likely to be short-lived.

3) On September 21, Citigroup issued a report titled "Gold: Riding the 'Re-Flationary Rescue'" authored by U.S. analysts John Hill and Graham Wark. The biggest news in the report is not their projection that gold may reach $1,000 within two years, perhaps the first time a major broker has forecasted a four-digit price for gold.

The part of the report reverberating around the financial world is at the top of page 7:

"Gold undoubtedly faced headwinds this year from resurgent **central bank selling, which was clearly timed to cap the Gold price**. Our sense is that the central banks have been forced to choose between global recession or sacrificing **control of Gold**, and have chosen the perceived lesser of two evils. This re-flationary dynamic also seems to be playing out in the Oil markets." (emphasis added)

After nine years of either silence or denials from central banks and their major bullion bank partners (including Citigroup) that some governments have been trying to manipulate the price of gold downward, this Citigroup report openly admits that this has happened!

For central banks to sell gold is not by itself an attempt at manipulation. However, sales that are made "clearly timed to cap the Gold price" obviously is.

In addition to central bankers and government officials, a number of "respected" gold analysts have consistently rejected GATA's claims that the price of gold has been manipulated. It will be interesting to see how they try to rehabilitate their reputations.

A major implication of this admission is that the price of gold would be much higher today if it were not for this manipulation.

4) Government gold price manipulation has become more blatant, which can be interpreted as a sign of greater desperation. On Tuesday, Wednesday, and Thursday last week, large quantities of gold contracts were sold exactly at 10:00 AM on the New York COMEX. It was obvious that "someone" was trying to force the gold price below the major resistance point of $726.00. When the sales failed to accomplish their goal for the third consecutive day, that turned into a sign that the price of gold was destined to go higher. So, the price of gold jumped about $10 on Friday.

Gold rose a few dollars two days ago, closing in the U.S. at $747.25, its highest close since January 1980!

5) Yesterday the manipulators struck again. Taking advantage of a day when the gold markets in India (the world's largest gold-consuming nation) were closed, large sales orders were entered in the other Asian markets, which tend to be more thinly traded, to get a decline started. As gold had enjoyed a robust performance for the past month, experienced traders in Europe jumped in to take profits, in the anticipation of being able to buy back in at lower prices later. In the U.S. markets, gold again tested $726.00, but not for long.

With the sign that the manipulation had run its course, traders jumped in to regain their positions, with gold settling yesterday at $732.00 in the U.S.

When the perpetrators of this manipulation have to resort to such transparent tactics, that is a sign to me that such practices may come to an end sooner rather than later. In other words, buy your gold today, not six months from now.

Summary: There are many more stories that deserve to be included, but there just isn't space for them all, even using a smaller-size type. They all tell the same story—even though the prices of gold and silver have tripled in the past few years, the problems leading to this boom have not been resolved. Until they are, and I doubt many politicians have the backbone to do what is needed, I expect much higher prices for precious metals in the coming months.

Deception With Government Statistics

The U.S. housing sales reports released in the past week have been grim. Sales of newly built and previously-occupied houses have declined as has the average selling price.

The National Association of Realtors (NAR) Pending Home Sales Index fell to 85.5 in August, the record low since this index was initiated in January 2001.

However, as bad as the government statistics look, saying that the number of sales and the average selling price are both down about 8% from a year ago, the actual statistics are far worse.

For the sales of new houses, for instance, the government statistics only reports on signed sales contracts. It does not subtract sales contracts that fall through. According to the NAR, sales failures are up sharply in August to more than 10% of all sales contracts! The major reason for the failure of a sale was the inability of the borrower to obtain a mortgage.

NAR Senior Economist Lawrence Yun said, "The impact was greater in high-cost markets

Who Says Inflation Is Low?

If you follow official U.S. government statistics on inflation, you may be under the impression that it is only running about 3% of so. If that is true than why have these wholesale prices for foods and fuels changed by these percentages in the past 12 months (as reported in today's issue of *The Wall Street Journal):*

Product	*12 Month Change*
Eggs	+106.5%
Corn Oil	+104.1%
Hominy feed	+76.3%
Wheat	+73.1%
Soybeans	+71.1%
Flour	+63.3%
Cheddar cheese	+56.9%
Cottonseed meal	+38.5%
Sorghum	+33.5%
Corn	+29.8%
Cocoa	+29.6%
Coffee	+24.0%
Lard	+21.7%
Oats	+17.0%
Broiler chickens	+16.8%
Beef	+3.4%
Sugar	+0.5%
Butter	+0.4%
Hogs*	-20.8%
Natural gas	+66.0%
Gasoline	+34.6%

* I suspect that the large drop in hog prices is because farmers are actively reducing their stock of hogs—because of the sharp increase in the cost of feed.

(Continued from page 2)
that are more dependent on jumbo mortgages. In some areas, as much as 30% of signed contracts were falling through in August."

The NAR also reported that the level of pending sales at the end of August was 21.5% lower than at the end of August 2006. That is a sales decline more than double the official government statistics.

The other misleading statistic is the relatively modest decline in the average selling price. As anyone who has recent experience with buying or selling a house can tell you, buyers are now getting a lot more extras thrown in to be able to realize the stated sales price. In some instance, sellers have remodeled or built additions, included cars, boats, other major personal property, or come up with other creative add-ons in order to realize the price of the sales contract. What that means is that the effective selling price of the houses is actually much lower than the government reports.

Just something to keep in mind the next time you see a government statistic (other parties are prone to the same statistical errors as well).

Report On Silver Summit 2007

Two weeks ago, I traveled to Coeur d'Alene, Idaho to attend Silver Summit 2007. This conference has been held for several years as a venue for representatives of silver mining companies and analysts of the silver market to interact with investors.

For two long days, presentation followed presentation, about 80% for mining companies and the balance by analysts. Several key insights from there are:

Higher silver prices in the past few years have spurred exploration and mine development. However, increases in future production are a long-term project.

1) For example, the Sunshine Silver mine in Idaho closed several years ago because it could not operate profitably at the low silver prices at the time. The mine was purchased by a new company in 2003, which immediately began rehabilitation of the extensive infrastructure and testing for profitable new deposits. Even with the head start of using existing mine shafts and drifts and processing facilities, the mine is not yet back in production. The company hopes to be mining parts of the mine by the end of 2007, which is a time lag of more than four years after work began to reopen the mine!

2) Most mining companies are buying existing mine locations. They are using modern technology and taking advantage of higher prices for silver, gold, lead, and zinc to find ore deposits that are now profitable.

The owner of the Bunker Hill Mine in Idaho told us that a visible vein off the main drift in the mine contained about 3% lead, 3% zinc, and would yield 1 ounce of silver per ton of extracted ore. Five years ago, this vein would have yielded about $12 per ton of ore, which was below production costs. Instead the mine's typical veins that were being mined at the time yielded $40 and the high-grade vein $60 per ton of ore. With higher prices for all three metals, that formerly sub-economic vein would now yield about $75 per ton of ore and is worth going into production.

3) In the past, mines developed where the ores could be easily found with the existing technology. Now, geologists have access to satellite images and other information that help them identify the most promising locations for test drilling. By doing extensive drilling before developing a mine, the mining companies can develop the site to obtain maximum yield on a more cost-effective basis. It turns out that there are lots of rich ore deposits at existing mines that previous operators did not access because they did not know they were there!

4) The higher metal prices means that there will be a significant increase in the supply of newly mined silver in years to come. About 70% of silver comes from mines where other metals (such as gold, copper, zinc, and lead) are the economic reason for the mine, and silver is simply a bonus by-product or co-product. Only 30% of new silver comes from primary silver mines.

5) Although many of the mining companies stated that they had not pre-sold future production and had no plans to do so, this tended to be the situation with exploration companies. Once valuable deposits are located, the cost to build the infrastructure needed to begin production often involves financing that requires pre-selling future output. As the volume of newly mined silver increases over the years, that will inevitably mean that the volume of pre-sold silver contracts will increase.

6) To offset the risk of financing future mining production, banks hedge their positions by leases, forward contracts, and options. As mining activity increases, the silver hedging market will grow with it.

7) Although the use of silver in photography is declining faster than anticipated, significant new technological innovations will call for even more use of silver in industrial applications. One of the most exciting uses now being developed is a new generation of silver-containing batteries that would replace the lithium ion batteries now used in laptop computers and cellular phones.

8) In the past two years, the investment demand for silver has soared. It took the complete liquidation of Warren Buffett's Berkshire Hathaway 129.7 million ounces of silver holdings to keep silver prices from jumping much higher than they have. In the past two years, the Reserve Bank of India has liquidated the bulk of its silver holdings, which are no longer available to cover continuing investor demand. There are now only insignificant amounts of silver held by governments (the U.S. government silver stockpile was exhausted a few years ago, so now the U.S. Mint is forced to buy silver on the market to manufacture Silver Eagle Dollars and other silver coins for collectors and investors).

9) Last year, the U.S. Mint announced that the Liberty Dollar, an attempt to create a private circulating currency, was an illegal product. Then nothing more happened. The publicity actually caused sales of the Liberty Dollar to zoom, but it left a legal cloud over the company. A few months ago, Bernard von NotHaus, whose title is chief architect of the Liberty Dollar, filed suit against the U.S. Mint and other government parties in order to remove any doubts about the legal status of the Liberty Dollar. Von NotHaus told me that he suspects that the Mint hoped just issuing their press release would be enough to cause the company to fail, because he considers the Mint's legal position without merit. The case is currently at the stage of filing motions and may take a year to resolve.

10) CPM Group Managing Director Jeff Christian is one of the most respected precious metals consultants and analysts. His clients include central banks, governments, major banks and brokers, and large corporations. As an insider who helped initiate central bank gold leasing activities, he thoroughly understands the shuffling of paper contracts for precious metals. In his analysis, the paper contracts traded for silver have no effect on the supply and demand for physical silver, although they can affect the price. Although he expressed little concern that the Comex silver market, with its huge net short position, would collapse, he did say that he personally owns some physical silver, gold, and foreign currencies "just in case."

Part of the reason that Christian is not so concerned about the large short position in the Comex silver market is because of the 70% of newly mined coming from secondary sources. No matter how low the price of silver might go, these mines will continue to produce silver as a by-product or co-product. As a result, silver will keep flowing onto the market even at low prices, which is a different economic scenario than for other metals.

Christian also said that the general public would be surprised if they knew how many high-flying private bankers and brokers held stashes of precious metals and currencies, sometimes literally under their beds.

11) Gold analyst James Turk, who has done some amazing research for the Gold Anti-Trust Action Committee (GATA) to uncover government manipulation of gold prices, showed how the price of silver over the past 30+ years was heavily influenced by U.S. government monetary policy. In times when the M3 definition of the money supply was rising sharply, the price of silver has been in a long-term bull market. He figures M3 is now is increasing about 13% annually even though the U.S. government stopped reporting these figures 18 months ago. The main reason for this correlation is that, despite significant industrial usage, silver is still money. He thinks we are still in the early stages of the current silver bull market, which will be driven largely by the financial demand for silver. Turk predicted that silver will outperform gold in the current boom market, because of it

(Continued on page 4)

(Continued from page 3)

being a smaller and more volatile market than gold. He also advised investors to avoid leverage, because leverage introduces the risk of having to rely on the promises of other parties to perform as contracted. Instead, he advocated owning unleveraged physical silver.

12) Bill Murphy, the chairman of GATA, thinks that the governments, central banks, and their major bank and brokerage house accomplices, are just about out of options to continue trying to manipulate the price of gold downward. As the gold market gains freedom to rise to its equilibrium level, that will also have the effect of boosting the price of silver.

13) David Robinson, publisher of *Bull & Bear*, one of the publications the regularly reprints parts of *Liberty's Outlook*, told me that when he is traveling, he calls the office to check the mail that has arrived that day. If an issue of *Liberty's Outlook* is there, he has it faxed to him so that he can read it right away.

14) In addition to the presentations, the weekend included visits to area mine sites including the Bunker Hill Mine (which produced lead, zinc, and silver and is currently inactive), the New Jersey Mine (an above-ground gold mine that currently produces about 50 ounces of gold a day plus a little silver), and the Sunshine Mine (a primary silver mine that is currently preparing to go back into production).

15) Obviously, some investors in silver mines will get returns much higher than through ownership of the physical metal. A company that is well operated and discovers and exploits new discoveries of rich reserves will do well.

Unfortunately, many small exploration and mining operations fail or just never pay off very well. In addition to the value of the metal, a myriad of problems could cripple potential profits such as incompetent operation, changes in government regulation, financing problems, accidents, or corrupt management.

Even in the best circumstances, gold and silver mining stocks tend not to rise as much as the price of the metal in a strong market. The reason for that is that mines make their profits over time. The mines cannot instantly put all of their reserves for sale. By the time some of it is available, the peak will probably be long past. To maximize profits, for most people I advocate owning the physical metal rather than stocks of mining companies.

In sum, even though the price of silver has more than tripled since early this decade, and even though mining companies are gearing up to significantly increase output, future prospects for much higher silver prices are bright.

The Month

Gold Range	65.75	9.6%
Net Change	+47.75	
Silver Range	1.61	13.2%
Net Change	+1.16	
Gold/Silver Ratio	54.7	
Net change	-1.3	
Platinum Range	123.00	9.7%
Net Change	+87.00	
Platinum/Gold Ratio	1.85	

Date	Gold	Silver	Platinum
Sep 05	681.50	12.18	1,265.00
Sep 06	695.50	12.37	1,281.00
Sep 07	700.75	12.55	1,290.00
Sep 10	703.00	12.52	1,287.00
Sep 11	712.00	12.65	1,291.00
Sep 12	711.75	12.61	1,293.00
Sep 13	709.50	12.51	1,288.00
Sep 14	708.50	12.54	1,287.00
Sep 17	715.75	12.74	1,291.00
Sep 18	715.75	12.77	1,294.00
Sep 19	720.75	12.95	1,296.00
Sep 20	732.50	13.32	1,315.00
Sep 21	731.50	13.47	1,318.00
Sep 24	732.00	13.49	1,333.00
Sep 25	731.50	13.48	1,338.00
Sep 26	728.00	13.41	1,342.00
Sep 27	732.50	13.52	1,352.00
Sep 28	742.75	13.79	1,385.00
Oct 01	747.25	13.72	1,388.00
Oct 02	732.00	13.33	1,344.00
Oct 03	729.25	13.34	1,352.00

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.

Gold and Gold Coins

Gold settled today at $729.75, up a whopping $47.75 (7.0%) from last month.

Demand for physical gold has continued strong, even at higher prices. However, enough sellers have liquidated that premiums have fallen on several coins.

As usual, the low premium best buys are the Austria **100 Corona** (2.9%), South Africa **Krugerrand** (3.0%), U.S. **American Arts Medallion** (3.0%), and Mexico **50 Peso** (3.0%). Among smaller coins, the British **Sovereign** (6.1%) is the low premium leader.

Demand for **Common-Date U.S. Gold Coins** has kept pace with the rise in gold prices, or even outperforming it. The 8-piece Gold Type sets (including the $2.50, $5.00, $10.00, and $20.00 of both the Liberty and Indian series), have done well, with the MS-63 set up more than 12%, the MS-64 set up over 10%, and even the MS-65 set up over 8%.

Higher gold prices have caused the **Better-Date U.S. Gold Coins** that sell for prices close to those of common-date issues to just about disappear completely. If you have an opportunity to acquire such rarities at a reasonable price, go for it.

Earlier this year, when I analyzed the **Classic U.S. Gold Commemoratives** series, the coins issued from 1903-1926, I found that no coins stuck out from the others as outstanding values. Since then, many prices have retreated. If you shop carefully, you can snap up some real bargains there.

Silver and Silver Coins

Silver closed today at $13.34, a huge jump of $1.16 (9.5%) from four weeks ago.

As with gold, the higher prices brought out more sellers, knocking down premiums on most coins and ingots. The premium on U.S. **90% Silver Coin** (0.4%) was more than 2% briefly in August, which meant that the wholesale price was high enough that refiners could not profitably melt down 90% Coin. At current lower premiums, this potential source of supply is again available to refiners.

Since 1999, Australia's Perth Mint has issued gold and silver coins each year to honor the animals representing the 12-year Chinese lunar calendar. High gold and silver prices in the past year have really cut into demand. Anticipating that prices will be even higher in the near future, the Perth Mint has decided to trim the product line (no more 2 or 10 Ounces silver coins) and to issue the 2008, 2009, and 2010 now. If you would like to complete your series with the Tiger, Mouse, and Ox, give us a call.

Collector demand for Mint State Morgan and Peace Silver Dollars is the strongest we have seen in two decades. Our offers earlier this year of 1921 Morgan and 1922 Peace Dollar rolls sold out quickly. This month's offer of **Rolls of Mint State-60+ 1881-S Morgan Dollars** will probably sell just as fast.

In 2001 and 2002, we managed to come up with hoards of **Superb Gem Mint State-66 1935-S San Diego Commemorative Half Dollars**. We have been looking for more ever since. A Midwest dealer recently allowed us to pick the nicest specimens from a hoard that he had. They won't last long.

Liberty's Outlook is published monthly by Liberty Coin Service, 300 Frandor Ave., Lansing, MI 48912. Telephone: National 800/527-2375 Fax: 517/351-3466 Website: www.libertycoinservice.com, E-mail: path@libertycoinservice.com Patrick A. Heller, Editor. Subscriptions are available at $109.00 per year (12 issues). Send subscription orders and changes of address to the above address.