

Liberty's Outlook

Volume 14 Issue 10 Liberty Coin Service's Monthly Review of Precious Metals and Numismatics October 1, 2008

This Is It And It Is Now!

- Over \$1 Trillion Of US Bank Failures In Past Two Weeks!
- FDIC Admits It Has Insufficient Assets To Cover Failing Banks!
- Congress Handling A Bailout Bill Guaranteed To Cripple Value Of US Dollar!
- World Stock Markets Tumble!
- Chinese Government Orders Nation's Banks To Stop Lending To US Banks!
- Demand For Physical Gold And Silver Overwhelming Global Supplies!

September would almost certainly have been LCS's highest sales month since the 1979-1980 boom and maybe even the highest volume month in our 37 years in business!

Except—demand for physical gold and silver is so strong that inventories of wholesale and retail coin and bullion dealers around the world are virtually exhausted!

Availability of several popular coins and bars is so uncertain or far off in the future that we had to turn away a lot of orders, including almost all six-figure orders in the past two weeks!

If you want to order 1 Oz Silver Rounds for instance, and you pay for them now, you may have to wait until next March for delivery!

Early last week, we purchased so many Krugerrands from a customer that we were able to fill all waiting customer orders going back into August and still had about 100 excess coins. The extra Krugerrands were all sold within 30 minutes.

Some customers have been put off by the prospect of a long-delayed delivery or by sharply rising premiums on gold and silver products that they could purchase.

Others have looked for near bullion products like U.S. circulated Morgan and Peace Silver Dollars and \$10.00 and \$20.00 Gold Coins, sterling silver medals, and just about any less common gold coins that can be purchased right now at a near bullion price.

On September 17th, the price of gold rose almost \$80, the largest one-day increase ever. On September 17-18, the price of silver rose almost 20%. With such volatile markets, wholesalers have widened buy/sell spreads and effectively are using different spot prices depending on whether they are buying or selling. That has forced retailers to widen their spreads as well.

Typically, you now find that dealers and wholesalers calculate their buy prices on the

basis of commodity exchange prices. However, very little is being sold at today's price levels which are much lower than they were in mid-March. Virtually all activity involves wholesalers selling to retailers and retailers selling to customers.

As a consequence, the "spot" prices at which almost all physical precious metals are traded are significantly higher than the commodity market spot prices.

For example, today LCS's selling spot prices were higher than our buying spot prices by \$8 on gold, 35 cents on silver, \$40 on platinum, and \$30 on palladium. Some dealers claim they are using the same spot prices for buying or selling, but they have much wider buy/sell spreads to effectively match the same prices from using two different spot prices.

In the past month, there has been so much financial news that has been widely reported that I will largely skip even mentioning it in this newsletter.

Instead, I want to focus on 1) significant news developments that were largely ignored by the media, 2) the real behind-the-scenes manipulations going on instead of what was reported, and 3) what this means now and into the future.

Important News You May Have Missed (And What's Going On Behind-The-Scenes)

1) Last week, Chinese Regulators ordered all Chinese banks to stop lending to US banks. This was not directed against the Bank of China, the country's central bank nor the government's sovereign wealth fund. Individual banks hold much smaller loans to US banks than does the Chinese government.

2008 Year To Date Results

Through September 30, 2008

Precious Metals

Gold	+5.9%
Silver	-14.0%
Platinum	-29.3%
Palladium	-37.2%

Numismatics

MS-63 \$20.00 Liberty	+26.7%
MS-63 \$20.00 St Gaudens	+19.2%
MS-65 Morgan Dollar	+15.9%

US Dollar vs Foreign Currencies

India Rupee	+18.7%
Great Britain Pound	+12.3%
Canada Dollar	+8.5%
Brazil Real	+7.5%
Euro	+4.6%
Switzerland Franc	-0.1%
Japan Yen	-5.3%
China Yuan	-6.2%

U.S. Dollar Index 79.313 +3.41%

US and World Stock Market Indices

Russell 2000	-11.3%
Dow Jones Ind Average	-18.2%
S&P 500	-20.7%
NASDAQ	-21.5%
London FT 100	-24.1%
Tokyo Nikkei 225	-26.4%
Frankfurt Xetra DAX	-27.7%

Intrinsic Metal Value Of U.S. Coins

Lincoln Cent 1959-1982	1.92¢
Lincoln Cent 1982-date	0.44¢
Jefferson Nickel-non-silver	4.38¢
Roosevelt Dime 1965-date	1.99¢
Wash Quarter 1965-date	4.96¢
Kenn Half Doll 1971-date	9.92¢

However, the Chinese government normally

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Scenes from the 2008 Silver Summit in Coeur d'Alene, Idaho. Here are some of the speakers and merchants at this year's event, who were willing to get their picture taken with LCS General Manager Pat Heller. From left to right, starting with the top row, you have **Roger Weigand**, editor and publisher of two electronic newsletters for active traders, **Al Korelin**, the host of the nationally syndicated radio program "The Korelin Economics Report," **Michael Maloney**, author of "Guide To Investing In Gold And Silver," **Jann Higdem**, owner of Eclectic Silver, a company specializing in clothing embedded with silver, **David Morgan**, publisher of Silver-Investor.com, The Morgan Report, and highly respected silver analyst, and **John Embry**, Chief Investment Strategist for Sprott Asset Management, one of Canada's largest asset management companies.

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indicates changes in its policy by indirect methods. It is almost certain that this order for banks to stop lending to US banks is a sign that the Chinese government is on the brink of refusing to accept any new US government debt instruments. It may even portend a plan to strike a heavy blow to the US economy by unloading US debt already held.

Even with the numerous failures of mega-billion and trillion dollar US financial companies in the past month, this may be the most significant news development of the month. This could signal the crack in the dam where a flood of US debt held by foreigners will come back home—and that the US government will no longer be able to finance future deficits on the backs of foreign central banks and investors.

2) In a presentation at the recent annual meeting of the London Bullion Market Association (LBMA) which is the world's largest trading market for gold and silver, its chairman Jeremy Charles said about physical gold, "There is an enormous pick-up in investment demand. I have never seen a market like this in my 33-year career. The gold refineries cannot produce enough bars."

At the same meeting, Philip Clewes-Garner, associate director of precious metals at HSBC, one of the world's largest banks stated that wealthy investors were purchasing gold for more than simply a safe haven from Wall Street woes, "It is a flight into gold because it is a physical asset."

3) In a report released September 17, Citigroup metals analysts John H. Hill and Graham Wark stated, "Frankly, we're surprised that gold is not already at \$2,000 per ounce."

4) The Perth Mint reports that it will take 6-8 months for holders of unallocated precious metals stored at the Mint to convert it

into allocated fabricated metal. One report said their current fee for the conversion was over 25% of the value of the metal. On the other hand, another analyst who studied the situation said that the Perth Mint was always taking 6-8 months to convert such accounts

Almost every day, the US Mint is announcing that they are stopping the sale of another bullion product or two. Today for examples, the Mint stopped selling 1 Oz Platinum Eagles, and 1/10 Oz Gold Eagles.

Johnson Matthey stopped accepting orders for 100 Oz Silver Ingots when its backlog reached 10 weeks of production. There is at least one indication that it will no longer manufacture silver ingots less than the 1,000 Oz size.

5) If you purchase a COMEX gold or silver contract to take delivery as a means to try to acquire physical metals close to spot price, there are two pieces of bad news. Apparently, you may have to wait months for delivery. You may also be the victim of one of the COMEX regulations which says that the party that owes the bar can make settlement in cash and not with physical metal. There are rumors that a number of contracts where the owner requested delivery have instead been settled with cash.

6) The most recent annual period of the Central Bank Gold Agreement has just passed. Under this agreement, the signatory parties were authorized (and expected) to sell up to 500 tons of gold (16.1 million ounces) annually. In this most recent year, only about 350 tons were liquidated, reducing potential gold supplies by almost 5 million ounces.

7) Goldman Sachs, one of the two largest remaining independent brokerage houses, had a huge net short position of 1.67 million ounces on the TOCOM Japanese commodity exchange in January 2006. Ever since, they have gradually been reducing this short position. Two days ago, Goldman Sachs completely eliminated their short position on the TOCOM. Goldman Sachs has been one of the major participants in helping the US gov-

ernment hold down gold and silver prices. With this change in the company's gold position, they may be less active participants in the manipulation.

8) Two days ago, A-Mark Precious Metals, Inc., one of the largest bullion wholesalers and a primary distributor for the US and other mints, announced that it did not have any gold coins or ingots in stock and that it would not be able to accept any orders for future delivery. Another West Coast wholesaler told us today that he has never seen so little physical gold and silver available in his 34 years of trading.

9) Physical platinum and palladium coins and ingots are virtually unobtainable. Prices are almost certainly declining in response to the expectation of new catalytic converter technology that eliminates the use of platinum and replaces it with silver at a 90% cost savings. It seems like the general media is not aware of this information and are simply saying the prices are declining as part of the overall price declines of many metals.

Where Are We Going Now?

This is it! And it is now!

I usually try to present my conclusions in a more understated manner. But the turmoil of the past month is the unintended consequences of past government interventions in the free market.

The proposed solutions for all this government-caused havoc is—more government interventions! It actually doesn't really matter whether the \$700 billion Wall Street bailout bill becomes law. If it doesn't become law, the Treasury and Federal Reserve will find other means to seize taxpayer assets on a huge scale to fund bailouts.

The one thing I am most worried about is that the current crush of losses may lead to legislation that will seize a portion of taxpayers' retirement accounts. In my mind, I think it would be an easy sales job to persuade the general public to accept a requirement that 15% of

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all retirement accounts be used to purchase US government bonds. Such a step would yield over \$1 trillion in new financing for the government. It could be sold as a way to “guarantee” the value of part of everyone’s retirement portfolio as opposed to the risks of owning stock in Fannie Mae, Freddie Mac, AIG, Lehman, Washington Mutual, Wachovia Bank, and all the other companies on the brink of collapse.

It could happen within days, or perhaps not until after the November elections, or may not for another six months, but gold and silver prices are destined to top their March highs and keep right on rising.

At the same time, I forecast that the value of the US dollar against other currencies will decline approximately one-third by next April.

The decline of the US dollar will spur other nations to also devalue their currencies, but the US dollar will drop the most. I expect all currencies to decline against gold and silver.

If you have not already purchased physical gold and silver to project yourself, do so immediately. Don’t worry if the price may fall 5% tomorrow as it will probably be higher in the near future.

The current financial crises are likely to get even worse in the near future. I believe that the US economy has passed the point of no return. There is no policy that could not be adopted which would avoid a lot of financial pain and possibly even social unrest. I’m sad to think this is what we face, but I have to call it as I see it.

Commentator Highlights From Silver Summit 2008

Roger Weigand: There are already large tent cities of homeless people in the US such as in Ontario, California.

Several speakers: Congressman Ron Paul is the only one in Washington who understands what brought on this financial crisis and how best to manage it.

Greg McCoach (publisher of *Mining Speculator*): European bankers have been calling him to try to buy gold in the US because they can’t find any in Europe.

Greg McCoach: The Russians have declared economic war on the US. Their primary attack will be to push for oil contracts to be priced in currencies other than the US dollar. If this occurs, the US dollar is dead.

David Morgan: Before buying any resource stocks, you must hold some physical gold and silver.

Roger Weigand: The first thing to buy is physical silver. Don’t hold it in safe deposit boxes because government could claim it as “abandoned property.”

Bernard von Nothaus II: Remember that Napoleon, Hitler, and Mao came to power after inflation destroyed the monetary sys-

tem.

Roger Weigand (with 25 years experience trading real estate): Housing will sink until 2012.

Bill Murphy (chairman of Gold Anti-Trust Action Committee): In June, gold analyst James Turk, John Embry, and I had a phone conference with officials from the Chinese sovereign wealth fund to discuss how the price of gold was being manipulated.

Bill Murphy: US gold confiscation won’t happen because it would be a red flag for the rest of the world that the US is bankrupt.

Greg McCoach: Tax loss selling in late 2008 could really hurt stock prices.

John Embry: The US financial system is now essentially broken. Never before have governments been so helpless to manage the crises that they set in motion.

Jeffrey Christian (managing director of CPM Group): Commodities are secretive, opaque, and misunderstood markets. If you have better information, you will outperform others consistently over time.

Jeffrey Christian: The Bank of China does not want gold or silver in the monetary system (I have worked with the Bank of China since 1980). But the Chinese sovereign wealth fund may be eager to own precious metals.

David Morgan: In a rising market, 90% of price moves come in the last 10% of the time.

David Morgan: When precious metals demand soars, 80% of the demand will be for silver because gold will cost too much for the average buyer.

John Embry and David Morgan: Silver must get to about \$21 before there is any prospect of declining premiums for physical products.

David Bond (editor of *Silver Valley Mining Journal*): If the silver price shoots way up, that could actually lead mines to produce less silver as they will shift to working lower purity veins.

David Morgan: The financial crises may get so bad that futures markets may close. Already the COMEX is limiting withdrawals of gold and silver.

Guide To Investing In Gold And Silver

A few weeks ago, Michael Maloney’s new book of the above title was released. It is now available through all general book sources.

If I were to ever write a book on this subject, I would hope it would turn out almost exactly like this book.

With information that was up-to-date through early 2008, it starts off with an explanation of monetary history, then goes on to discuss the current global economic environment. He concludes, as do I, that gold and silver will outperform most other kinds of assets in the next few years.

Then Maloney discusses some pitfalls of purchasing (or thinking you are purchasing)

gold and silver. Many of these points have appeared repeatedly in this newsletter. He continues with recommendations on how to invest in gold and silver.

For an easy to read book of just over 200 pages, I found myself in agreement with almost everything. But there are a few areas where we disagree. For example:

- Under pitfalls, Maloney doesn’t discuss the risks and disadvantages of owning precious metals in a retirement account.
- He also considers owning any gold coins not made in the US to be a bad move. We advocate owning foreign gold coins where the premiums are lower than you would pay for comparable-sized US bullion coins.
- Maloney does not like US 90% Silver Coin because it does not state its silver content or purity. In a barter scenario, I think 90% Coin would be the dominant form traded because more Americans would be familiar with them than other silver forms.
- His recommendation of Silver Eagle Dollars as the best physical silver to own is a unattractive because of the high premium compared to other forms of silver.
- Last, Maloney lets readers know that he has established a company to sell gold and silver bullion. I checked that website this morning. It quotes live prices which virtually all were substantially higher than LCS prices at the same time. The product prices that were competitive ultimately cost more because of the far higher postage charges.

The book has a list price of \$16.95. Even with my areas of disagreement, I think almost any reader would find that the information it contains would pay back the book’s cost many times over.

Gold and Gold Coins

Gold ended today at \$888.75, up a huge \$86.00 (10.7%) from four weeks ago.

The price of gold would actually have soared much higher but for the repeated efforts of the US government and its trading partners to manipulate prices downward. In the past month, cracks appeared in the ability of the government to continue such manipulation. While there are still many means by which prices may be held down for a while, it looks like the government will soon lose control. Several foreign central banks have already declared that they are no longer willing to sell their gold reserves. Several sovereign wealth funds are starting to add gold to their investment portfolios.

Unfortunately, many standard bullion coins and bars are no longer available. By the time you receive this newsletter, other coins will almost certainly become unavailable.

Among coins that you can actually pur-

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chase, the lowest premium is the Mexico **50 Peso** (6.2%). As I write this, you can obtain delivery within two weeks. However, I expect premiums to rise and delivery times to lengthen almost on a daily basis. Right now, you can still order Canada **Maple Leafs** (7.0%), but they will take 4-5 weeks for delivery. For all other gold coins, you will likely have to wait even longer, if you can even get a dealer to accept an order.

For your own protection, I recommend using a dealer who has a lengthy track record—especially going back before the 1979-1980 boom. I expect that some less experienced wholesalers and dealers will get themselves into trouble accepting orders that they just will not be able to fill anywhere as fast as they project. Wholesalers are starting to require that dealers send up-front bank wires when placing orders, so expect to have to immediately make full payment for product you might not see for a while—which is one more reason to be selective about your dealer.

Austria **100 Corona** (6.5%) and US **American Arts Medallion** (6.5%) are at reasonable premiums in today's market, but delivery is likely 1-2 months.

The shortage of physical precious metals has already brought out some charlatans to take advantage of the novice buyers.

One tactic I have heard from several customers is that they are told the US government will confiscate all their bullion gold and that they must only purchase pre-1933 numismatic coins. I discussed this subject at length in the January and June 2008 issues of this newsletter. You are welcome to read them online at www.libertycoinservice.com or contact us for complimentary copies.

As difficult as it has been to locate bullion gold coins, many buyers have switched to purchasing **Common-Date US \$10.00 and \$20.00 Gold Coins**. Prices have soared and supplies have dried up as a result. Some of this demand may be augmented by those falling for the "gold bullion confiscation" scam. At the moment, I don't recommend purchasing such coins.

That advice also applies to the **Better-Date US Gold Coins** that can be acquired at or close to the price of common-date issues. They are just too pricey relative to other choices.

Even though our price quotes page shows that several gold and silver items are not available and I expect this list to get longer day by day, please contact us to check. We are vigorously searching for supplies. We may find some around the country or we may happen to have a customer sell some to

The Month

Gold Range	158.75	19.8%
Net Change	+86.00	
Silver Range	2.95	21.7%
Net Change	+0.17	
Gold/Silver Ratio	68.0	
Net change	+5.8	
Platinum Range	348.00	25.0%
Net Change	-321.00	
Platinum/Gold Ratio	1.21	

Date	Gold	Silver	Platinum
Sep 03	802.75	12.90	1,392.00
Sep 04	798.00	12.86	1,402.00
Sep 05	804.00	12.45	1,384.00
Sep 08	803.50	12.19	1,367.00
Sep 09	792.00	11.84	1,282.00
Sep 10	763.00	11.12	1,212.00
Sep 11	749.25	10.74	1,177.00
Sep 12	768.25	11.04	1,234.00
Sep 15	791.00	11.33	1,196.00
Sep 16	783.50	10.72	1,109.00
Sep 17	851.75	11.87	1,164.00
Sep 18	900.50	12.90	1,156.00
Sep 19	868.50	12.68	1,169.00
Sep 22	908.00	13.65	1,265.00
Sep 23	889.50	13.37	1,242.00
Sep 24	893.00	13.64	1,245.00
Sep 25	881.75	13.47	1,210.00
Sep 26	889.00	13.67	1,145.00
Sep 29	898.25	13.48	1,122.00
Sep 30	884.25	12.73	1,054.00
Oct 01	888.75	13.07	1,071.00

London Silver Market Premium To New York Silver Market = 7¢

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

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

us. Thus, we may have some available for a short time. There are also some coins where we have a small quantity available but cannot take larger orders. We have changed our quotes page to reflect the smaller size of gold coin orders that we might be able to provide. If you don't check with us, you will never know what we can offer.

Several coin shops around the country are rationing gold and silver to their retail customers. One major Midwest dealer limits orders to four gold coins. Another will only accept orders for a maximum of 300 ounces of silver. LCS is not at that stage of operation, but we are getting close.

We do have the good fortune to be able to offer a nice lot of **Millennium First Strike Superb Gem Mint State-67 2000-dated British Sover-**

eigns and Half Sovereigns at prices that may be lower than what bullion Sovereigns might cost (if we could find any) by the time you read this. See our offer for details.

Silver and Silver Coins

Silver finished today at \$13.07, up a quiet 17 cents (1.3%) from last month.

Even though the spot price of silver is now lower than it was at the end of 2007, the price of physical silver bullion-priced products means that the effective price decline is smaller.

The silver market has been anything but quiet. As you can see in the table on this page, the closing US silver spot prices ranged almost \$3.00 from lowest to highest.

In addition, premiums jumped on everything. At the closing market in our September 3 newsletter, US **90% Silver Coin** (26.8%) were selling for \$9,795. This afternoon, our selling price was \$11,850—almost 21% higher! We have been able to maintain live availability of US 90% coin over the past month except for one 24-hour period two weeks ago.

To give you an example of how strong gold and silver demand is right now, about three weeks ago, we located a wholesaler who had just acquired a 200-bag lot of US 90% Silver Coin. We immediately purchased 75 bags in the late afternoon. The next morning, when we had sold them all, we tried to buy more. No luck, they were all gone.

There are no Silver Ingots you can purchase for immediate delivery. At the moment, we can offer Ohio Precious Metals 100 Ounce Ingots (11.5%) for delivery about five weeks after payment, but the time is getting longer with each lot we order to be fabricated. The Ohio Precious Metals 1 Oz Rectangles (17.2%) that we are currently selling should be available in 6-7 weeks after payment.

We do happen to have some US **Silver Eagle Dollars** (36.3%) and Canada **Silver Maple Leafs** (32.5%) in stock for immediate delivery, at premiums so high that I don't recommend them, but only in limited quantities that may sell out before you receive this newsletter.

We have picked up two interest lots of numismatic silver coins for your consideration. The **US Silver State Quarter Proof Sets** are now priced not that much more than plain circulated 90% Coin. This is the largest group we have ever had in stock, but they are almost certain to sell out quickly. LCS General Manager also did a great job at the recent Long Beach Exposition in California scooping up some lovely **Mint State Early Morgan Silver Dollar Rolls** at bargain prices. These are historic numismatic coins, so we may actually keep some in stock for more than a day or two. Please see our flyer.