Liberty's Outlook

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Special Alert!

Gold Poised To Reach $350, Silver To Top $5.50 By End Of October!

Time To Act Now!

The headline for this issue is deliberately sensationalist. It is meant to encourage you to take time now to read the information in this special alert.

Publishers of newsletters know that the dramatic headlines get attention, even if they are groundless.

We don't operate that way here at Liberty Coin Service. We try to offer you useful background information on the current precious metals and rare coin markets, add historical context and analysis, and let you decide what actions are best for your circumstances.

In looking at the current state of the gold and silver markets, I judge that there is a significant chance that gold could reach $350 and silver could exceed $5.50 by the end of next month. It could happen sooner than that and prices could rise more sharply than these levels. The headline was meant to get your attention to take prompt action. We don't want you to risk missing out on the opportunity to protect your assets.

Here's my thinking behind this conclusion.

Background Data

Prices ultimately are determined by market forces of supply and demand as well as available inventories. In today's complex world, supply and demand includes not only physical inventories, but the effect of paper contract trading as well.

Gold: In last month's newsletter I detailed five reasons why the supply of physical gold is declining. Refer to that issue for the complete discussion or call or write for a free copy.

Briefly, the five reasons were 1) that low gold prices in the past few years have discouraged exploration and mine development, 2) that the price of gold is high enough that all practical recycling of gold is being done, 3) that the net amount of central bank gold sales (sales offset by central bank purchases) are unlikely to grow for the next several years, 4) that gold mines on a net basis are now reducing their amount of pre-sold future production, and 5) central banks are reducing their leasing activities because of low returns.

A recent JP Morgan analysis confirms the fourth point. It reports that the mines, on a net basis, bought back 11.7 million ounces of their pre-sold future production in the first six months of 2002. This reduced worldwide open hedges to about 95 million ounces. With annual gold demand over 150 million ounces this represents almost a 20% annualized drop in supply compared to the normal increase of pre-sold gold of 5-10 million ounces annually we have seen in recent years.

The price of gold has increased 15% in the past twelve months. Still, this drop in gold supply should have caused an even larger increase than that. What that tells me is that there are other factors currently holding down the price of gold, which I discuss further below.

On the demand side, gold should enjoy another surge soon. First, the

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Current LCS Recommendations For Precious Metals and Rare Coins

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

Conservative	Moderate	Aggressive
5-10%	10-20%	20-33%

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

	Conservative	Moderate	Aggressive
Gold	60%	45%	25%
Silver	40%	45%	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.

Inside this issue:

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physical demand from India should pick up noticeably by the end of October. India is the world's largest gold consuming nation, accounting for as much demand as the second through fourth leading nations combined.

About two-thirds of India's gold demand comes from rural areas, where the monsoons have been lighter than normal this year. With lower crop yields, the farmers won't have as much discretionary income. As a result, physical demand for gold will be below levels of recent year's record amounts.

Because of the lower demand, the trading houses in India have severely cut back on their inventories. Some dealers are only buying gold as they receive orders. When orders from rural customers come in after the crops are harvested in mid-October, there is almost certain to be a surge in gold imports into India.

The second surge in demand I expect to come from Japan (again). Two days ago, the Nikkei 225 stock index hit a 19-year low. The lower stock values have put the nation's banking industry at further risk.

This past spring, one analyst estimated that the net worth of the entire Japanese banking industry at a *negative* $1 trillion! Several analysts expect that there is at least another $500 billion in unrecognized bad debts to write off.

Japanese banks took a hit this past spring when the government reduced unlimited insurance coverage (similar to FDIC in the U.S.) on some kinds of bank accounts to only 1 million yen (about $80,000). Significant amounts were withdrawn from the banks, leaving them with a higher proportion of shaky assets. In a move that can only be called desperation, the banking industry has been pressing the government to reverse the law change.

Even at the most optimistic valuations, the falling stock market has pushed the Japanese banking industry down near an 8% capital level. This level is considered the minimum for major banks around the world to be considered sound.

I anticipate that some nervous Japanese savers will withdraw more funds from their bank accounts, making a precarious problem even worse. We could soon see a major banking crisis in Japan. Gold demand in Japan may well soar even higher than it did this past spring. From past indications, I would expect that government to step in to prevent widespread bank failures.

But where will the Japanese government come up with the funds to rescue the banks? To me, the obvious source is the Treasury's foreign exchange holdings. If the Japanese government is forced to liquidate dollars to buy yen to rescue the banks, look for the value of the U.S. dollar to decline significantly.

(By the way, a study by the World Gold Council (WGC) reported two obstacles to greater demand for gold. First is the general ignorance of the public about the purposes of owning physical gold. The second obstacle is investors' lack of knowledge about where to purchase physical gold. The WGC is planning programs to overcome these obstacles, though they will not affect short-term demand.)

All of the foregoing factors could lead to another quick 10% jump in the price of gold. What will have the largest impact on the price of gold in the near term, I think, is the revelation of gold price manipulation by central banks and their bullion bank partners.

A perfect example of the manipulation of the gold price happened yesterday. World stock markets dropped sharply, with the U.S. Dow Jones Industrial Average experiencing is largest percentage drop (4.1%) since the aftermath of the September 11 attacks. The U.S. dollar also dropped in price. Traders that use mathematics to estimate the impact of such moves figure that the price of gold should have risen $8 yesterday. But it only moved up a paltry $1. Today, many analysts are wondering why gold was so quiet yesterday.

The answer may well be that unreported gold derivative trades, a market in which JP Morgan Chase is the largest player, stopped the rise in the price of gold. Do I have proof to offer you right now? No.

However, a number of investigators are assembling an impressive body of data about past central bank (including the U.S. and Germany) manipulations of the price of gold, despite official protestations of innocence. To avoid disclosing this information, Treasury officials are refusing to answer inquiries from members of Congress, a major no-no, and have changed the way that it reports U.S. gold holdings (refusing to provide any explanations).

These same investigators now have fresh evidence to gather about gold derivatives trading on September 3. I would not be surprised to see major revelations on central bank gold price manipulations in the coming weeks.

One of the bullion banks allegedly cooperating in this manipulation is JP Morgan Chase. Just this morning they issued a technical analysis claiming that gold was overvalued at current prices. Yet, they were forced to admit in the same report that there is strong demand for physical gold at only slightly lower prices.

If, or should I say when, the price of gold takes off, I doubt that it will stop at $350. It could easily reach $400. Much higher prices are not out of the question.

Silver: It is true that industrial demand for silver is down right now. The recession led fabricators and their suppliers to run down their inventories because of an expected decline in demand from end users.

For instance, with the fall in travel and leisure expenditures, the demand for photographs has dropped, leading to lower demand for photographic silver.

But it is a mistake to focus only on a minor decline in demand in determining the price of silver. You also have to account for the huge shortfall of new supplies. Even if the current drop in demand continues, new supplies will still only cover about 85% of needs. For full details, see my in-depth analysis in the July 10, 2002 issue of *Liberty's Outlook* or call or write for a free copy.

Inventories are down to precarious levels. Even though the spot price of silver has declined about 4% in the past month, investor demand for physical silver is far outpacing liqui-
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dations. For instance, the price of U. S. 90% Silver is virtually unchanged in the past month, despite lower silver prices!

At the moment, there are significant net short positions in the silver futures and commodities markets, possibly the largest we have seen since 2001. Any significant increase in the price of silver will cause investors to close out many of these positions, further magnifying any increase.

Trading in silver is minuscule in dollar volume compared to the gold market. Warren Buffet caused a 50% rise of the price of silver in six months with only a $650 million investment (from late 1997 to early 1998). This happened at a time when the price of gold was sliding. Just imagine what one astute investment fund could do in silver in a few weeks in a market where the price of gold is rising!

At some point, it seems obvious to me that the price of silver will rocket upward. I expect the eventual equilibrium level to be at least $15 per ounce. With 12 years of huge supply shortages, I have long since expected the price to shoot up. The longer it takes, the larger the move will be. If gold makes a major move soon, that should be a sufficient spark get the silver price going. A spot price of $5.50 would be an easy target. It could easily shoot to $6.00 or $7.00 by the end of October and maybe even higher.

The general economy: October is a month that scares stock market investors. Last month, I outlined a number of negative corporate "surprises" on the horizon. I was on target with several of them, especially Citicorp.

I didn't forecast others, such as the near collapse of the airline industry and the Chapter 11 bankruptcy of Consolidated Freightways.

I also forgot to discuss the pension plan time bombs that are ticking. In 2001, projected profits of the defined benefit pension plans of U.S. publicly held companies were about $70 billion higher than actual results. Companies such as Northwest Airlines use an expected average pension return of 10.5% when calculating how much of an annual payment to make to the pension plan, despite the sizeable loss this pension plan sustained last year.

Just yesterday, Ford Motor was downgraded by one analyst in large part because of the $5-7 billion unfunded pension liability. Its stock quickly dropped 7%.

As I have said before, the overall stock market evaluation has already discounted some amount of forthcoming corporate bad news. But I doubt that investors have discounted the full impact on U.S. banks and other companies of a Japanese banking crisis. Investors, already skittish, can drive down stock markets further if the bad news comes in fast and furious.

But What If I Am Wrong?

Predictions that are very short-term and specific in amount are far more likely to be wrong than more generalized forecasts. It is entirely possible that $350 gold and $5.50 silver won't happen by the end of October.

But these targets are definite possibilities. And if they come to pass a little later than the end of October, it is still safer to augment your precious metals holdings today than to risk missing out at today's current bargain levels.

Silver and Silver Coins

Silver closed today at $4.47, down 20 cents (4.3%) from a month ago. It is also down 65 cents (12.7%) from its recent peak of $5.12 on June 4.

Don't let that scare you. Silver is still 10.6% higher than it closed on November 27, 2001! All this shows you is the relatively high volatility of the silver price. After all this movement, silver is right around its 400-day moving average price.

The big news, as noted above, is the continuing strong demand for physical silver and the lack of liquidation. U.S. **90% Silver Coin** (11.4%) is still selling about the same price as a month ago, when it was selling at only a 6.8% premium to its metal value. I still consider it the best form of silver to purchase because of its greater liquidity, ready availability, and high divisibility compared to ingots.

100 Ounce Ingots (10.5%) now have a four cents per ounce edge over 90% Coin. Those making a sizeable silver purchase may wish to purchase only a single bag of 90% coin, then acquire the balance in 100 Ounce Ingots.

Common-date U.S. Morgan and Peace Dollars continue to inch upward in price in circulated grades, enough so that we are starting to see some prince increases in Mint State rolls and high-grade individual coins. **Better-date U. S. Morgan and Peace Dollars** and **U. S. Classic Silver Commemoratives** are difficult to locate and sell quickly.

The previously announced **Shawnee Tribe Tecumseh Silver Dollars** were released on July 30. These limited edition proof and brilliant uncirculated 1 ounce pure silver coins are a one-year commemorative that already have mostly sold out. Perhaps the neatest feature of these coins is that they may well enjoy legal tender status across the United States, making the Shawnee Tribe a competitor to the U.S. Mint! For your chance at one of these historic coins, see our enclosure.

Gold and Gold Coins

Gold finished today at $315.00, up 75 cents (0.2%) from four weeks ago.

Unlike the one-way traffic in silver, there has been roughly equal purchases and sales of gold bullion coins and ingots over the past month. Volume has been steady, but at lower levels than occurred in June and July as prices were rising.

At the moment, significant physical demand appears in the Far East when the price of gold drops below $310. When the spot price climbs near $315, there is a notable increase in sales by investment banks.

Until yesterday, the major recent influences on the price of gold were the value of the U.S. dollar and the U.S. stock markets. Gold rose as they fell. Whether the inverse correlation may resume is up in the air at the moment.

The low premium leaders are still the U.S. **American Arts Medallion** (2.8%), Austria **100 Corona** (2.9%), and South Africa **Krugerrand** (3.0%). The British **Sovereign** (6.2%) continues to be the price leader among smaller gold coins.

The supply of other lower premium

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European gold coins like the Swiss **20 Franc** (7.5%) and the France **20 Franc Rooster** (7.5%) has dried up as the dollar has declined in value to the Euro. Still, there are no shortages.

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

Once again, we did not come up with any groups of **Better-Date U.S. Gold Coins.** When attractive specimens are found, they sell quickly.

With persistence and luck, deals in **World Gold Coins** can be located. This month our luck came through for us. In collections we bought, we acquired a quantity of **Canadian Gold Commemoratives** that we have priced at lower premiums than bullion coins such as the Canada 1/15 and 1/10 Oz Gold Maple Leafs. See our brochure for details.

Pick Of The Month—1999 Silver Kookaburras Honor Marked For the 1999 U.S. State Quarters!

This month we scooped up an exceptional bargain, one of the most intriguing in our more than three decades in business. Australia's Perth Mint struck 1999 1 Ounce Silver Kookaburras with a sizeable "Honor Mark" that is an exact miniature reproduction of a 1999 U.S. State Quarter. It made such Kookaburras for all five of the 1999 U. S. State Quarters. The Perth Mint then matched each of these coins with a Mint State specimen of the corresponding State Quarter, and put them in a lovely package.

It appears that official issue price for this 10-coin set (5 Kookaburras and 5 State Quarters) was $245, which is the price charged by a major California dealer. We could only find one other dealer offering these beautiful rarities, and he wanted $99.75 per set. Because of Chief Numismatist Allan Beegle's fantastic purchase, you can purchase them from LCS at $64.75 per set or less! At our money-saving price, the silver content becomes a significant consideration.

We believe these are the <u>scarcest</u> 1 Ounces Kookaburras we have ever offered, and also the <u>lowest price</u> at which we have ever offered any. Other dealers offer the more common regular 1999 1 Ounce Kookaburra at prices as high as $27. See our enclosed flyer for details.

The Month

Gold Range	$ 8.25	2.6%
Net Change	+0.75	
Silver Range	.27	5.8%
Net Change	-.20	
Gold/Silver Ratio		70.5
Net change		+3.2
Platinum Range	33.00	6.2%
Net Change	+3.00	
Platinum/Gold Ratio		1.71

Date	Gold	Silver	Platinum
Aug 07	314.25	4.67	535.00
Aug 08	310.25	4.63	541.00
Aug 09	314.25	4.67	547.00
Aug 12	314.00	4.59	550.00
Aug 13	314.25	4.57	553.00
Aug 14	311.75	4.46	560.00
Aug 15	314.25	4.49	560.00
Aug 16	313.75	4.49	557.00
Aug 19	306.00	4.40	553.00
Aug 20	308.75	4.43	547.00
Aug 21	307.75	4.41	543.00
Aug 22	306.75	4.46	548.00
Aug 23	306.75	4.42	548.00
Aug 26	309.50	4.44	553.00
Aug 27	312.25	4.50	562.00
Aug 28	309.25	4.50	562.00
Aug 29	312.75	4.52	568.00
Aug 30	312.50	4.45	565.00
Sep 02	closed		
Sep 03	313.50	4.46	546.00
Sep 04	315.00	4.47	538.00

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

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

You Asked Us

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

Q: Does anyone at LCS ever make presentations on money and rare coins to schools? *Received from several customers.*

A: Yes we do. The latest focus is on General Manager Pat Heller's service on the Michigan Quarter Commission, the panel appointed by Michigan Governor Engler to work on the design for the 2004 Michigan State Quarter.

Although the Commission's work is finished, the five final designs are still in Washington for evaluation. It is expected that between two and four of the designs will be approved by the Mint and returned to the Governor's office to make the final selection.

Although there is no official process for public input in selecting the winner, governors in other states have paid attention to public opinion polls to help make the final choice.

Pat Heller has obtained a second set of copies of illustrations of the five finalist designs (the other set is on exhibit at the Michigan Historical Museum). He is currently scheduling appearances at local schools to exhibit these designs, collect student votes on their preferences, and make educational presentations to students about the Michigan Quarter and related subjects. Teachers and school administrators are welcome to call Pat to schedule a visit to their school. Presentations before several classes at the same school are welcome.

A Reflection On September 11

I was fortunate not to lose any friends or relatives last September 11. Still, it will be a sorrowful day I will always remember—as I am sure you will.

Perhaps that best tribute to those who perished would be to lead our lives as close to how we would have if the horrible attacks have never occurred.

If my plans work out, I will be flying in the Far East on September 11. This will replace a trip to China that I didn't take last October. I didn't plan the trip to be flying on September 11, but I like the symbolism of life going on that it may demonstrate.

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