

# Liberty's Outlook

Volume 9 Issue 9 Liberty Coin Service's Monthly Review of Precious Metals and Numismatics September 3, 2003

## Gold And Silver Rise Despite Surge In U.S. Dollar!

### Making Profits In Volatile Markets

### P.2 Gold And Silver: Protection In The Next Power Blackout!

What is happening?

The financial news in August provided a number of reasons for the prices of precious metals to decline. For instance:

- The prices of gold and silver were already at high levels compared to the recent past. On July 28, 2003, gold closed at \$364.50 and silver at \$5.19. Those prices were 36.3% and 23.5% higher than their July 27, 2001 closes, respectively.
- U.S. and many foreign stock markets continued rallies to levels well above their recent lows, diminishing the need for gold and silver as a safe haven.
- The U.S. dollar touched a multi-month high against the Euro (up 8.4% in the past 3 months) and the Japanese yen (up 2.6% in the past 3 months), making precious metals more expensive in those currencies and less attractive to purchasers in other nations.
- The Greek central bank revealed that it had sold 20 tons ((643,000 ounces) of gold, a country that had not previously reported any gold sales.
- Speculators and investment funds are holding their largest net long positions in gold in years. At many times in the recent past, these sectors have actually been in a net short position.
- There hasn't been solid indications of increased silver demand for industrial fabrication.
- On top of all this news, demand

in India is going through its annual slow time.

So why, with all these reasons for lower gold and silver prices, has the price of gold instead climbed \$23.00 (6.6%) and silver nine cents (1.8%) in the past month?

Part of the answer is that lots of scary and tragic events happened around the world in the past month that have no direct tie-ins with either financial or precious metals markets:

- The August 14 power outage to 50 million residents in the U.S. and Canada.
- The deadly terrorist bombing on August 19 of the United Nations headquarters in Iraq.
- The August 19 suicide bombing in Jerusalem that killed 20 people and touched off bloody retaliatory raids by the Israeli government.
- The huge power outage in London and southern England on August 28.

Though such events are not directly related to precious metals, they do increase political and economic woes in a world that is already shaky.

When political and economic uncertainty increases, investor confidence in currencies drops, almost always resulting in higher demand for gold and silver as a safe haven against losses in paper assets like stocks and bonds.

Now, there have already been several continuing factors that helped push up the price of precious metals in the past couple of years including 1) reduced new gold supplies from the mines, 2) lower gold liquidation and leasing from central banks, 3) a major increase in gold and silver demand in India—the world's

largest gold consuming nation—because of the prosperity wrought by a good monsoon season, 4) the China central bank purchases of huge amounts of gold for its reserves, and 5) soaring consumer demand for gold, silver, and platinum in China.

When you add the increased impetus to buy precious metals sparked by the recent bad news to the pre-existing factors, it should be no surprise that gold and silver were so strong in August.

### Making Profits In Volatile Markets

However, I have to warn you that the recent higher prices of gold and silver are precarious. The large long positions held by speculators and funds should not be considered as "strong hands." What that means is that any significant rise in prices could lead to short-term profit-taking or that major negative news affecting precious metals could spark quick sell-offs no matter what the current price.

In other words, the gold and silver markets are much more volatile today than they have been in the past couple of years. Volatile markets mean you have greater risks of significant losses as well as the potential for huge gains.

My long-term forecast is for gold to be substantially higher than now, and I expect to see gold top \$400 by early next year at the latest. But today there is a greater risk of a 10% drop between now and those eventual targets.

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Currently, more short-term traders are going long and longer on the basis of “momentum” rather than for “value.”

As we saw in the late 1990s, huge profits were possible by investing in stocks with momentum. Since the market peaked and crashed after March 2000, value stocks have generally outperformed those with momentum potential by a huge margin.

We are facing a bit of the same in the precious metals markets today. The ultimate strength of gold and silver is that they are undervalued at today’s prices. After my recent analysis of the 1971-2002 supply, demand, inventory, and other factors in the silver market, for instance, I concluded that the ultimate equilibrium price for silver is well over \$10.00!

In the current market, other analysts are making comments such as “gold is clear to rise to the \$420-480 range *if* [emphasis added] it can limit the downside at \$367.” Such verbiage tries to cover all bases of what may happen because no one really knows just what will happen to gold and silver prices in the short term.

It is possible to profit in volatile markets such as we face today, even if prices drop sharply right after you purchase. What matters is your cost and the price at which you sell your holdings, not how the prices fluctuated in between.

A lot of investors give themselves a hard time if they purchase an asset only to see the price drop 10% shortly afterward—even if they eventually make a good profit down the road.

When confronted with volatility, there are strategies to try to maximize your profits in the long-term. Perhaps the most popular is called dollar-cost averaging.

Rather than making an entire purchase all at one time, you spread your purchases over time, such as once a month for six months. You spend approximately equal dollar amounts each time, buying whatever quantity the amount permits. By this method, you will have acquired more of the asset at a lower average cost than the average price.

Here’s a simple example: You spend \$1,500 per time purchasing 1 oz gold coins. The first time you buy six coins at \$250, the second time you buy

three coins at \$500, and the third time you buy two coins at \$750 each. At the end of this period, you own 11 coins at a total cost of \$4,500, an average of \$409 each compared to the average price of \$500 at the times you made your purchases.

A riskier alternative strategy is to plan to spread your purchases over time, making subsequent purchases only when prices drop. For instance, you might buy 500 ounces of silver when the spot price is \$5.00, then buy another 500 ounces each time the spot price drops another dime.

While this will likely help you purchase silver when prices hit their low, you run the risk that the silver price may never fall down to \$4.90 and in fact may rise instead. Over the past two decades, the spot price of silver has jumped 50% or more in a few months at least three or four times. By waiting for \$4.90 silver in this example, you may miss out almost entirely on a soaring price. Or, as we have seen too many times, buyers get tired of waiting for silver to get to their \$4.90 target so they finally jump in when silver is above \$6.00.

The basic “secret” to making profits is to find assets that are fundamentally undervalued and that have significant prospects of higher value within the buyer’s time frame. Once you find those opportunities, you make more money purchasing them today, almost without regard to short-term fluctuations, than putting a lot of effort into trying to jump in at the very bottom.

So, if your precious metals and numismatic holdings are less than 5-20% of your net worth, you should promptly make up your own plan for acquiring more. Then make sure to execute your plan.

## **Gold And Silver: Protection In The Next Power Blackout**

The huge power outage in the Northeast and Midwest US and Canada on August 14 that left 50 million in the dark for up to several days didn’t surprise utility experts.

Instead, many of these experts were amazed that it did not happen sooner. And now they confess that they expect it to happen again before the infrastructure from the 1950s and 1960s can be upgraded to meet the far higher electrical demand of today.

LCS lost power in this outage, though we were close enough to the fringe that about half of the staff never lost power at their residences. The power in the store came back on about 12 hours later, and we

were able to resume virtually normal operations the very next morning.

However, power didn’t come back on that fast in the Detroit area. We had Detroit-area coin dealers drive up to our store the next day, partly to do some business while their own shops were closed, but also to purchase suddenly unavailable commodities like gasoline and groceries!

The television news broadcasts, when they were able to get back in operation, covered stories about how people were unable to obtain cash at ATMs to use when they were suddenly unable to use their credit cards.

Although the ultimate disruptions for most people were minimal, perhaps we were lucky this time around. What if the power outage hit in winter and lasted for a week? Would the average person have enough cash on hand to tide them over until they could again tap their bank accounts and credit cards?

All along, I have advocated holding hard assets like gold and silver as insurance against the calamities that might affect the values of intangible assets such as stock and bonds.

Now that I have less confidence that I can count on electricity being available so that I can use my charge cards to pay everyday bills, I am going to make sure that I have more cash on hand, just for emergencies.

For even better protection, I am also going to make sure that I have access to gold and silver for potential barter purposes. Not in the form of a certificate for metal in a far off location or even stashed in the safe deposit box at my bank that might be closed without power. No, I will have some amount of gold and silver immediately available to me.

The families of some students in my son’s school are Southeast Asian refugees. When I have talked with some of the parents and grandparents, I confirmed that they are alive today because they had physical gold in their possession to buy their way to freedom.

I am not suggesting that the political environment in the United States is so poor that I need to hold gold and silver for that purpose. But there are other potential circumstances where gold or silver might make a difference.

One example comes to my mind. In

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the 1980s, some friends of mine were working at a non-profit organization in California when a local bureaucrat showed up one day to arrest everyone at the location and seize the premises for evidence of some major crimes.

The organization's vice president happened to be absent that day. When he was called with the news of the raid, he went to the organization's safe deposit box and withdrew some Krugerrands that had been donated years before. He gave the Krugerrands to an attorney as collateral for the retainer fee.

The arrested individuals were soon released from custody, were never charged with crimes, and the organization ultimately won every lawsuit except for some of those seeking recovery of legal expenses. The official who incited the raid lost his re-election bid.

How different this might have turned out if those Krugerrands weren't available at a moment's notice.

Do you have some gold and silver on hand for your protection?

## **Rare Coin Market Heats Up Even More**

Last month I told you how much stronger the rare coin market is getting, with dealers becoming more aggressive at looking for coins to fill growing customer want lists.

The strength is continuing and even showing signs of expanding. A few weeks ago, LCS Chief Numismatist Allan Beegle purchased a scarce date Morgan Dollar from a dealer for \$730. Allan remembered talking with a dealer at the ANA convention in Baltimore a few weeks earlier who was looking for that very coin and willing to pay \$750 for it. Well, when Allan called him to offer the coin, the dealer said he would now pay \$850 to obtain it!

LCS has always enjoyed steady patronage from other Michigan dealers. Lately it has really intensified. We have a number of out-of-area dealers who are starting to call every day and driving to visit our store at least once a week to look through our latest purchases. This year, a shockingly high percentage of the rare coins we offer in the newsletter are being snapped up by coin dealers desperate for merchandise.

It has happened several times this year that we have offered a rare coin to a retail customer who passed on it, then shortly thereafter sold the same coin at

a higher price to a dealer.

It is not often that you get rare coin prices to jump over 10% in one month like the example cited above. While most coin prices are rising slowly, there have been a surprising number of huge price increases this year. Next month I hope to have enough space to detail which coin prices may have risen so much that they no longer reflect good value in our judgment.

Overall, we are still in the early stages of the next great boom in the rare coin market. There are a wide variety of opportunities with tremendous appreciation prospects available today.

If you are contemplating a significant purchase of rare coins with an eye toward appreciation as well as the outright enjoyment of possessing historic mementos, we recommend calling us soon. We have assisted customers with budgets ranging from \$100 all the way up to \$500,000 and we have decades of experience trading rare coins for our personal accounts.

## **Platinum At 23-Year High!**

Through the 1980s and most of the 1990s, I was generally negative on the prospects for platinum. New mine supplies exceeded industrial demand for about 15 consecutive years.

That changed a few years ago. Now demand has exceeded new supplies for a few years, but the deficits are not so large as those for gold or silver. For that reason, I have been somewhat positive on platinum's prospects while considering them less attractive than those for the other two metals.

A new factor has crept into the supply/demand equation—Chinese demand. Demand for platinum jewelry in China is soaring and may soon become the world's largest market for platinum jewelry (surpassing current leader Japan). Demand is so strong that a new platinum trading exchange recently opened in Shanghai, operating in parallel with the hugely successful gold exchange.

Platinum is currently sitting at its highest levels since the boom of 1980. While my conservative nature tells me that the price is too high to represent good value, it is possible that there may be even higher prices in the future.

## **2003 Proof Gold American Eagles—An Opportunity?**

Along with bullion-priced Mint State Gold American Eagles, the U.S. Mint

has sold Proof versions to collectors at substantial markups. It struck over 446,000 Proof 1 Oz Gold Eagles in 1986. Mintages have since generally declined.

In 2003, the Mint put a maximum limit of only 29,000 Proof 1 Oz Gold American Eagles. Of these, 8,000 were offered as individual coins while the remaining 21,000 could only be obtained as part of the 4-coin Proof Gold Eagle Set.

The individual 2003 1 Oz Proof Gold Eagles sold out in perhaps record quick time at \$630. The 4-coin sets are nearly sold out, priced at \$1,098. The smaller coins are still available individually at \$315 for the 1/2 Oz, \$165 for the 1/4 Oz, and \$85 for the 1/10 Oz. The Mint also charges a postage fee.

For the first time ever, the U.S. Mint has implemented a bulk sales program to the nation's largest coin dealers that includes the Proof Gold Eagles. As a participating dealer, LCS can offer the 4-Coin Set and the three smaller coins at the very same price charged by the Mint. If you include these coins with another order, there is no additional postage charge!

While many Mint products in the 1970s and 1980s turned out to be real duds, several in the 1990s have seen huge price jumps in the last few years. While I consider it somewhat speculative, the 2003 4-Coin Proof Gold Eagle Set or any of the smaller coins might become winners.

## **Silver and Silver Coins**

Silver closed today at \$5.04, up 7 cents (1.4%) from four weeks ago.

Physical demand has fallen off markedly from the frenzied levels earlier in 2003, influenced in part I suspect because spot prices have increased more than 10% from the spring.

Premiums have remained fairly stable in the past month. U.S. **90% Silver Coin** (4.3%) remains the low price leader and is our top pick to buy physical silver.

U.S. **40% Silver Coin** (7.8%) and **1-100 Ounce Ingots** (13.7-10.2%) premiums are worth considering, especially the ingots if limited space is a consideration.

**High-Grade Common-Date Morgan and Peace Silver Dollars** continued their appreciation almost across the board. For instance, MS-64 Morgans are up over 18% in the past two months! I

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expect this trend to continue as wholesalers accumulate quantities for upcoming promotions. I would recommend such coins more strongly except that a number of **Better-Date Morgan and Peace Silver Dollars** are doing even better! You can still acquire a number of top quality "cartwheels" at prices that are 70-85% below their levels at the last major market peak in mid-1989.

I expect the same to continue for a wide range of other semi-bullion and numismatic silver coins over the next year. For example, now that the U.S. Silver Eagle Dollar has been minted for 18 years, we find that the numbers of collectors by date is many times greater than it was a few years ago. Some of the scarcest mintages have soared in price. We think the low-mintage Silver Eagles that are available at prices close to current year coins represent the best values now. Our offer of the **Gem Mint State-65+ 1998 1 Oz Silver Eagle Dollars** is a prime example. See our flyer for details.

### Gold and Gold Coins

Gold finished today at \$374.00, up \$23.00 (6.6%) in the last month.

Demand for physical gold has been subdued for most of the past month, except for last week, when the price of gold rose almost 4% between Monday's close and Friday's.

The low-premium price leaders are the U.S. **American Arts Medallion** (3.7%), Austria **100 Corona** (3.4%), and South Africa **Krugerrand** (3.6%).

We do not recommend the higher premium coins such as the U.S. **American Eagle** (4.8%), Canada **Maple Leaf** (4.5%), and Australia **Kangaroo** (5.5%). Past experience with other issues (such as the 100 Corona, Krugerrand, and the Mexico **50 Peso**) is for the premiums to decline when the extant mintage is so large that secondary market liquidations are sufficient to meet demand.

**Common-Date U.S. Gold Coins**, especially \$10s and \$20s, have been selling well over the past month. For instance, the price of the 8-piece Choice Mint State-63 U.S. Gold Type Set is up almost 5% from a month ago!

Demand for **Better-Date U.S. Gold Coins** is even stronger than before, if that is possible. We recently acquired a

### The Month

Gold Range	\$24.50	7.0%	
Net Change	+23.00		
Silver Range	.27	5.4%	
Net Change	+0.9		
Gold/Silver Ratio	70.6		
Net change	-6.5		
Platinum Range	31.00	4.6%	
Net Change	+28.00		
Platinum/Gold Ratio	1.90		
<b>Date</b>	<b>Gold</b>	<b>Silver</b>	<b>Platinum</b>
Aug 06	351.00	4.97	681.00
Aug 07	352.50	5.03	680.00
Aug 08	356.25	4.99	679.00
Aug 11	361.75	4.99	693.00
Aug 12	358.50	4.86	694.00
Aug 13	362.00	5.02	686.00
Aug 14	365.50	5.02	689.00
Aug 15	363.00	4.93	691.00
Aug 18	358.50	4.93	691.00
Aug 19	361.50	4.99	694.00
Aug 20	365.50	5.02	697.00
Aug 21	360.50	4.94	701.00
Aug 22	363.00	4.99	697.00
Aug 25	361.25	4.99	689.00
Aug 26	365.75	5.00	691.00
Aug 27	373.00	5.13	707.00
Aug 28	370.00	5.12	706.00
Aug 29	375.50	5.11	703.00
Sep 01	closed		
Sep 02	373.00	4.99	710.00
Sep 03	374.00	5.06	709.00

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

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

lovely lot of **U.S. \$20.00 Liberties from the Carson City Mint** from one of our long-time customers. All Carson City Gold Coins are rarities and in jaw-dropping demand right now. As dealers heard about our purchasing this group, they have descended upon our store, pleading for the opportunity to purchase them. They are just going to have to wait until our retail customers get first shot. See our enclosed offering..

A Michigan dealer also sold us a mini-hoard of **Isle Of Man 1989 1/25 Oz Gold Persian Cats** at a price so reasonable that we can offer them at huge discounts to the prices of our competitors—but only while supplies last. Our price is so low that wholesalers who have more specimens want

a higher price than we are charging.

### We Are Remodeling Our Showroom!

To prepare for the influx of visitors to our store early next January when the Michigan Quarter comes out, LCS will be remodeling its showroom. We will be closed Friday October 3 and Saturday October 4 to do the heavy moving.

The new layout will allow even more numismatic, precious metal, and collectible merchandise to be on display while also providing easier customer access to all of our displays.

Part of this will be accomplished by discontinuing our retail stamp displays and almost all of our stamp supplies. Unfortunately, the number of stamp collectors has been dwindling even as the number of coin collectors is soaring. Our stamp and stamp supply sales no longer justify the space for displays and the labor to assist customers seeking individual stamps.

LCS will continue to buy and sell stamps, but only on a bulk collection basis. We will also be adding to our collectible postcard displays to meet increased interest.

During the month of September, in-store customers can save 20-30% off the list price of stamp supplies we have in stock. They can also chose among bulk stamp lots at very attractive prices. Last, we are selling bulk lots of unused U.S. postage stamps at 5-10% below face value while our supply lasts.

Visit our store before the remodeling to save money. Then come back to visit after we have finished to enjoy a cleaner store, better organized to help you find what you are seeking, and more accessible displays.

### LCS Preparing For Debut Of The Michigan Quarter

LCS will be the site for several special events and products when the Michigan Quarter appears in January. For instance, we will not be selling these quarters. Instead, we will give Michigan Quarters to those who bring in non-perishable food or cash donations for the Greater Lansing Food Bank. Stay tuned for other exciting details, including some pending clearance from the U.S. Mint's legal department.