

# Liberty's Outlook

Volume 10 Issue 9 Liberty Coin Service's Monthly Review of Precious Metals and Numismatics September 1, 2004

## Gold Over \$400 Again! Silver Tests \$7.00 Level!

Thus far in 2004, rare coins and precious metals have generally outperformed stocks and currencies.

Even though the US dollar has outperformed most other major currencies in the past eight months, the prices of silver, palladium, and platinum have done even better.

Gold slipped a bit against the US dollar, but increased in value against the Euro, yen, Australian and Canadian dollars, and the Swiss franc.

In numismatics, common MS-65 Morgan Dollars and US Proof Silver Eagle Dollars are up more than 40%, a result that puts stock indices and currencies to shame. Even the index of US Collector Key-Date Coins is up more than 20% in the past eight months.

Some top performing numismatic coins of 2003, the MS-63 \$20.00 St Gaudens and \$20.00 Liberties gave up part of last year's gains. The US non-silver Proof Sets from 1968 to 1998 also dropped 14.3% since the start of the year, but are still up almost 40% from the end of 1998!

When gold closed at \$413.00 on August 20, that was its highest since April 12 and nearing the \$427.50 close on April 1 which was the highest gold price since December 6, 1988!

During the day on August 20, the silver spot price touched \$7.00, before short-term profit takers knocked the price back down to close at \$6.86, the highest close for silver since April 20.

This year has been wonderful thus far for dealers of rare coins and precious metals. Many people are liq-

### Results For 2004

(Through August 31)

<i>Precious Metals</i>		<i>US Dollar vs Foreign Currencies</i>	
Silver	+13.8%	Australia Dollar	+6.8%
Palladium	+ 8.1%	Euro	+3.4%
Platinum	+ 7.2%	Switzerland Franc	+2.3%
Gold	- 1.3%	Japan Yen	+2.0%
		India Rupee	+1.7%
<i>Numismatics</i>		Canada Dollar	+1.6%
US MS-65 Morgan Dollar	+42.2%	Mexico Peso	+1.3%
US Proof Silver Eagles, 86-98	+41.0%	China Yuan	0.0%
LCS US Collect Key-Date Coin Idx	+20.3%	Great Britain Pound	-1.0%
LCS US Invest Blue Chip Coin Idx	+ 6.1%	<i>US And World Stock Indices</i>	
US Silver Proof Sets, 1950-1964	+ 5.7%	Tokyo Nikkei 225	+3.8%
LCS US Large Paper Money Index	+ 5.6%	London FT 100	-0.4%
LCS US Collect Generic Coins Idx	+ 2.9%	S&P 500	-0.7%
LCS US Better Date Coins Index	+ 2.7%	Russell 2000	-1.6%
US Non-silver Proof Sets, 1968-98	- 14.3%	Dow Jones Industrial Average	-2.7%
US MS-63 \$20 St Gaudens	- 20.7%	Frankfurt Xetra DAX	-4.5%
US MS-63 \$20 Liberty	- 28.9%	NASDAQ	-8.3%

uidating their holdings at the highest prices in 10-20 years. Last week, LCS made our highest number of purchases from customers in a one-week period in more than two decades!

At the same time, the prospect that prices could soon be even higher has stimulated demand from collectors and investors.

As a result, it is quite possible that LCS's sales volume this year will be the highest since the 1979-1980 bullion boom (for which we thank you). There are a lot of similarities today with the rare coin and precious metals markets in the late 1970s, as I have discussed in the past few months.

I stick to my forecasts over the past few months that gold and silver prices will strengthen, though possibly not until after the US elections in November.

In fact, considering what we have witnessed in the past few weeks, I think pre-

ious metals prices just might take off before the elections!

There are several reasons for this outlook.

### Factors Affecting Gold And Silver Prices

As I have detailed in the past two months, both gold and silver have significant long-term supply shortages. To put a brake on demand and increase supplies will take much higher prices for both metals.

Some fresh data points to possibly stronger gold prices in the coming months.

Gold Fields Mineral Services reported that the world's gold mining companies reduced their pre-sold gold contracts by a net of 3.9 million

(Continued on page 2)

**Inside this issue:** The Impact Of Higher Oil Prices **page 2**  
Rare Coin Market Gets Even Stronger **page 3**  
US Presidential Election: Not Important **page 4**

*(Continued from page 1)*

ounces in the second quarter of 2004. This is the largest quarterly decline in several years, and is the fourth consecutive quarter that the mines have become more aggressive at closing out their hedged positions.

One paragraph in the report gives the perfect explanation why the shareholders of gold mining stocks have a strong interest in eliminating these pre-sold contracts—it reduces profits.

In the second quarter 2004, gold mining companies without any pre-sold gold contracts realized an average of \$394 per ounce for their new production. Companies that do have hedge contracts realized an average of only \$385 per ounce.

If you are a mining company whose cost to produce an ounce of gold is \$350, that lower price wipes out over 20% of the profit that could have been made! Lower cost producers are not as dramatically affected, but shareholders are still pummeling stock prices of gold mining companies with large hedge positions.

When the mines divert part of their current production to deliver against pre-sold contracts, that reduces the amount of gold available as new supply—making the supply shortage even more acute.

The world's central banks and governments hold enormous quantities of gold—about 900 million ounces in total—almost one-fourth of all gold extant in the world. They have been liquidating gold at record levels for the past several years, but it has not been enough to cover the long-term shortages.

The 1999 Washington Agreement on Gold is being renewed by most of the original signatory nations this month, with the annual limit on total central bank sales increased 25% from 12.8 million ounces of gold to 16 million ounces. The problem is that, once the Swiss complete their one-time gold liquidation in the next half year, there are no obvious alternate sources to maintain sales at even existing levels!

Beyond these worries about gold supplies, you have to consider the

impact of oil prices.

## **What Does The Price Of Oil Mean To Gold And Silver?**

In the past month, the price of oil reached its highest dollar value ever, though it was well short of its all-time highest price in inflation-adjusted dollar terms.

A rising oil price affects the market in diverse ways, many of which ultimately affect the prices of precious metals and tangible assets.

Higher oil prices influence consumers to lower their demand. Fuel efficiency becomes a more important criterion in purchasing new vehicles. Long-distance travel plans are cancelled or replaced with shorter trips.

Industrial products which use oil as a major raw material, such as plastics, go up in price, resulting in lower demand. As employment rises in the petroleum industry, it may decline in the automotive, airline, and plastics sectors.

Higher oil prices also means more revenues to producers, including many nations in the Middle East. Many of these same nations, such as Saudi Arabia and the United Arab Emirates, are also large consumers of gold. As more oil revenues are received, demand for gold in these countries is almost certain to rise.

The long-term trend for oil demand is to rise steadily. China now consumes more oil than its domestic industry can produce. In the not too distant future, it may consume 30% of the world's oil production! As other nations industrialize, the growing number of newly affluent consumers will buy more automobiles.

Oil demand is highest in the winter, when much of it is used for heating purposes. Refineries can more easily handle demand in warmer months, but worldwide refinery capacity is now almost fully utilized year-round.

There is no shortage of oil. It is abundant. But there is a developing shortage of refining capacity. No new refineries have been built in the US for over 20 years. There are almost no refineries now under construction anywhere in the world.

Even if the political obstacles to obtaining more oil can be overcome, the political roadblocks against building

new refineries will prove to be a greater challenge.

As a result, I expect oil supplies to remain tight for at least the next ten years. Prices will be higher than they would be in a free market (where producers and consumers are fully responsible for the pollution they cause to others). The world's citizenry will be poorer as a result of the problems wrought by political obstacles to access to low-cost energy supplies.

The economies of net oil-consuming nations will be less vibrant, meaning that the stock markets in those nations will be valued at lower levels. Currencies of those countries will tend to lose value compared to the currencies from oil-producing nations.

Out of fear of declining paper asset values, I would expect higher demand for precious metals and even rare coins.

On the other side, as I said, I expect a rise in gold demand from oil-rich nations that are already large gold consumers.

I don't think it was coincidental that the prices of gold and silver followed along when oil peaked near \$50 on August 20, then settled slightly as oil's price declined.

Although high oil prices help drive up the price of gold, keep in mind that this is not a dominant relationship. The price of oil is but one factor influencing the price of precious metals. It would not have had as dramatic an effect these past few weeks if gold and silver were not already in fundamental long-term market shortages.

Although silver is not directly tied to the oil market, it does tend to move in sympathy with gold. If gold prices shoot up, short-term traders start piling into silver as being the better value, and vice versa.

To the extent that there is a long-term oil supply shortage, I expect that to further boost the prices of gold and silver, above the impact of all the other reasons for which the demand for precious metals is growing.

*(Continued on page 3)*

(Continued from page 2)

## The Rare Coin Market Gets Even Stronger

Summertime is normally slower in the rare coin market. Collectors and dealers take more vacation time. People in cooler climates take advantage of the warmer weather to get outside. And while they are on vacation or outside, they are not devoting as much time to rare coins.

This summer has been different. Activity has been strong, almost without letup. Dealers are forsaking vacations so that they can work in another lucrative coin show.

LCS Chief Numismatist Allan Beegle attended the huge American Numismatic Association (ANA) Convention in Pittsburgh two weeks ago. Here are some of his observations.

1. The market for trophy coins is impressively strong. As he worked with various dealers, he noticed that almost every time a dealer put a freshly purchased trophy coin (those priced above \$10,000) it would attract immediate attention and often sell quickly.

2. Even Allan got into the act. For the first time in LCS history, he paid more than \$10,000 for a Lincoln Cent, then quickly sold it for a profit. It didn't matter that the printed wholesale reference valued this MS-66 Red 1909-S VDB Cent at only \$8,000. If you can find such a coin, there are interested buyers waiting.

3. It is becoming ever harder to find nice quality desirable coins at reasonable prices. For instance, in last month's newsletter offerings we sold out of every date but one of the Gem Mint State-65 Morgan Dollars that we recommend as being relatively undervalued. Despite searching diligently, Allan was unable to bring back a single specimen of any of the dates!

4. Dealers are becoming so aggressive at searching for coins for customer want lists that nice collections that come in sell before we are able to take them to the next show. Allan complained that, because of our constantly selling new purchases to collectors and dealers, we had little inventory to take to the ANA. Still, his sales totaled four-five times what would normally have sold at other

ANA shows just a few years ago!

5. One coin that was in relatively large supply at the ANA was common-date high-grade \$20 Liberties. Several wholesalers temporarily withdrew or dropped their bids significantly, waiting for the market to digest this supply.

6. Even though the price of gold has increased almost 5% since last month, the prices of MS-63 and higher \$20 Liberties are down about 5%. This softness has even carried over sympathetically to high-grade \$20 St Gaudens.

7. There are two LCS indices that are understating the actual rise in rare coin prices: the LCS US Investor Blue Chip Coins Index and the LCS US Better Date Coins Index.

To remove any bias on our part for these indices, we use sight-unseen wholesale bids as reported in *The Certified Coin Dealer Newsletter* (also known as the Blue Sheet). Sight-seen coins, those that are more solid for quality and visually more attractive, trade at a premium to sight-unseen prices. For these nicer coins, *The Coin Dealer Newsletter* (also known as the Grey Sheet) is currently a better wholesale price indicator.

This presents a dilemma for us here at LCS. We have always offered only the nicer sight-seen certified coins to our retail customers. We either decline to purchase the inferior coins at all or do so to make a small profit unloading them on the wholesale market. Our strict standard means that we offer coins to our retail customers that we would love to repurchase someday. As a result, coins that we sell at retail are often worth more when they are resold than coins of the "same" quality acquired from other dealers.

A few years ago, there were only small differences between the sight-unseen and sight-seen prices for many coins. As prices have risen, collectors and dealers are being more selective about what they are willing to take at the sight-seen price ("If I'm going to pay a high price, it has to be a really nice coin."). Thus, these two indices do not accurately reflect the rise in the solid-quality coins that we actually offer to our retail customers. If I have

time, I will try to do an analysis of the relative differences between the sight-unseen and sight-seen market in the first eight months of this year, then report the results next month.

8. Being able to uncover fresh deals depends a lot on having well-established relationships with other dealers and wholesalers. As dealers learn that our check is reliable and fast, they remember what kind of coins we are looking for. When these coins come their way, they give us a call. For this reason, a lot of the best deals that come onto the market never make it to show or store displays.

These relationships help us obtain more nice coins, often at advantageous prices, compared to newer and smaller coin dealers. And it enables us to help our customers save money.

## Gold and Gold Coins

Gold finished today at 408.50, up \$16.50 (4.2%) from four weeks ago.

Gold has slowly built a base from the \$370s a few months ago. There is a good chance that it can now establish a solid base at \$400.

If prices keep rising, expect a lull in liquidation until gold passes at least \$450. I would not be surprised to gold to reach that level by the end of 2004.

The lowest cost-per-ounce forms of physical gold to acquire remain the Austria **100 Corona** (3.5%), South Africa **Krugerrand** (3.7%), and U.S. **American Arts Medallions** (3.7%). Among smaller coins, the British Sovereign (7.6%) remains the lower premium favorite.

Some **U.S. Gold Coins** fell slightly in the past month, especially in the Double Eagles. I expect this situation to be temporary. Despite this opportunity for a bargain, I much prefer **Better-Date U.S. Gold Coins**. A wide number of coins can be acquired at small premiums to common-date coins, yet they can be tens or even hundreds of times rarer than the common issues. Experienced collectors flock to them.

Our enclosed offer of the **Very Choice Mint State-64 1915-S Panama-Pacific and 1916 McKinley Memorial Commemorative Gold Dollars** is a perfect example of low-

(Continued on page 4)

(Continued from page 3)

mintage coins you can buy at prices similar to those of the more common coins.

We also struck a bonanza when we acquired the nicest group of **Ultra High Quality 1984 Helen Hayes 1 Oz Gold American Arts Medallion** that we have ever seen. These include a few specimens certified Near Perfect MS-69, possibly the only specimens ever graded that high by any major grading service.

### Silver and Silver Coins

Silver closed today at \$6.79, up a modest six cents (0.9%) from a month ago.

Silver has undergone two sell-offs back toward the \$6.50 range in the past month, but bargain hunting investors turned the market right around.

I would not be at all surprised to see silver test \$7.00 in the next week and think there is a good chance to get back above \$8.00 by the end of the year.

The best buy in silver is again U.S. **90% Silver Coin** (3.0%), which has the best liquidity, divisibility, and lowest cost per ounce of the most popular forms. Also worth considering are **100, 10, and 1 Oz Ingots** (5.9-4.4%) for those with limited storage capacity.

**Common-date Mint State Morgan and Peace Dollars** are in even stronger demand than a few months ago. While some MS-63 and higher grade dollars have taken a breather in the past month, wholesalers are still aggressively chasing stock for future promotions.

This month we can offer a modest quantity of **Mint State Rolls of 1888-O Morgan Silver Dollars** at the very same price that you would pay to purchase the 1881-S rolls, the most common pre-1921 Mint State Morgans. In our 33 years in business, this is only the second group of these we have ever handled, despite searching for them. See our flyer for details.

### The Non-Importance Of The U.S. Presidential Election

The United States became a great

### The Month

Gold Range	\$21.00	5.4%	
Net Change	+16.50		
Silver Range	.34	5.1%	
Net Change	+.06		
Gold/Silver Ratio	60.2		
Net change	+2.3		
Platinum Range	53.00	6.4%	
Net Change	+39.00		
Platinum/Gold Ratio	2.13		
<b>Date</b>	<b>Gold</b>	<b>Silver</b>	<b>Platinum</b>
Aug 04	392.00	6.73	831.00
Aug 05	392.25	6.74	827.00
Aug 06	399.75	6.76	830.00

Aug 09	400.25	6.73	834.00
Aug 10	399.50	6.71	848.00
Aug 11	395.00	6.52	834.00
Aug 12	394.00	6.55	846.00
Aug 13	398.50	6.62	860.00

Aug 16	402.75	6.73	880.00
Aug 17	404.00	6.72	887.00
Aug 18	404.00	6.83	855.00
Aug 19	406.75	6.82	859.00
Aug 20	413.00	6.86	850.00

Aug 23	410.50	6.74	834.00
Aug 24	403.00	6.57	841.00
Aug 25	407.75	6.62	854.00
Aug 26	407.25	6.67	853.00
Aug 27	402.75	6.59	862.00

Aug 30	407.50	6.71	865.00
Aug 31	410.00	6.77	864.00
Sep 01	408.500	6.79	870.00

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.

country and a leader of the free world because its people were freer than almost anywhere else in the world. Their property rights were largely respected, which encouraged them to apply themselves to earn more property.

Especially valuable was the fact that the US government largely stayed out of the way of entrepreneurs seeking profits by trying to find better ways to serve consumers better.

For instance, Bill Gates did not become one of the wealthiest people in history because of a government handout. He did so because his Microsoft corporation provided customers a better computer soft-

ware alternative than the products they were using before.

It is the action of private citizens that produces wealth. Governments do not create assets. Instead, it can only use resources that were first created in the private sector.

It is the private sector that is important for the creation of wealth, the reduction of poverty, fostering respect for human rights, and the like. As we have seen in countless examples in history, nations that do not support the private sector also do not enjoy the above-listed benefits.

Ideally, the political leader of the United States should focus his or her efforts on keeping the government from interfering with and harming people's lives, economic or civil. The best thing a president of the United States could do is to make his or her job unimportant in people's lives.

Unfortunately, the candidates of the two major political parties (and most others) do not hold this philosophy. In their view, the government should "do something." While there are minor differences in the degree to which they apply this attitude about government, overall it will make little difference which candidate wins November's presidential election.

Whichever candidate wins, the size of the federal government will grow. New regulations will further disrupt the lives of private citizens. Instead of fostering respect for civil rights and civility, Americans will be further divided into groups competing for political favors and welfare.

As for the precious metals and rare coins, I don't think it much matters who wins the US presidential election. The government will continue taking actions that impair the value of paper assets, leaving gold, silver, and rare coins a profitable form of insurance.

I don't mean to be so blunt, but one of the primary reasons for owning hard assets is to protect yourself from the ravages wrought by your own government. That will be true no matter who takes the oath of office next January.