Liberty's Outlook

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Central Banks Become Net Buyers Of Gold For First Time Since 1987!

The prices of gold, silver, and platinum had been pounded when I wrote last month's newsletter four weeks ago. I predicted that the levels in effect that day would represent a temporary bargain buying opportunity.

That was right on the nose. Prices started to recover the very next day. Within a week, the price of gold was up 4%, silver jumped more than 11%, and platinum rose more than 10%. None of the prices have since been lower than they were four weeks ago.

By the end of September, we are likely to see several factors (which I listed in last month's newsletter) inflict damage on the value of the US dollar. As this occurs, there is a strong possibility that gold and silver prices will finally break out of the recent trading ranges.

For gold, I think it quite likely that it will surpass $1,035 by the end of September, and has an outside chance of topping $1,200.

With silver, I expect the spot price to reach at least $16.25 and maybe even shoot up over $20.00.

Making short term predictions is treacherous, but none of the risk factors I listed last month have been fixed or gone away. In fact, there are even more problems to worry about. So, I see no reason to back down from my overall prediction that the next major rise in gold prices has already begun.

For instance, both the gold and silver markets on the COMEX are now regularly on the brink of backwardation, with the August and September contracts last night closing at virtually the same price.

In normal commodity markets, the future months trade at a higher price than the current "spot" month, often by a price difference that reflects the interest rate. Therefore, the further into the future you go, the higher the price. This condition is called contango.

Commodity markets go into backwardation, where the current month price exceeds at least some future month prices, when demand for immediate delivery exceeds supply. It rarely occurs. When it does, that signals a potential near term major rise in spot prices. As both the gold and silver markets are on the brink of backwardation, that is just one more indicator of higher demand and why prices may rise sharply in September.

2009 Year To Date Results

Through August 25, 2009

Precious Metals		
Palladium		+42.2%
Platinum		+31.4%
Silver		+24.8%
Gold		+6.6%
Numismatics		
US MS-63 $20 St Gaudens		+14.7%
US MS-63 $20 Liberty		+13.2%
US MS-65 Morgan Dollar, Pre-1921		-9.1%
US Dollar vs Foreign Currencies		
Japan Yen		+3.8%
Singapore Dollar		+0.7%
India Rupee		+0.2%
China Yuan		+0.1%
Hong Kong Dollar		+0.0%
Switzerland Franc		-0.6%
South Korea Won		-1.0%
Euro		-2.4%
Mexico Peso		-5.3%
New Zealand Dollar		-14.4%
Canada Dollar		-10.8%
Great Britain Pound		-10.8%
Australia Dollar		-15.0%
South Africa Rand		-16.8%
Brazil Real		-19.7%
U.S. Dollar Index	78.243	-3.8%

US And World Stock Market Indices	
Shanghai Composite	+60.1%
Sao Paulo Bovespa	+52.9%
NASDAQ	+28.4%
Dow Jones World (excluding US)	+27.2%
Nikkei 225	+18.5%
Australia S&P/ASX 200	+18.4%
Russell 2000	+16.8%
Frankfurt Xetra DAX	+15.5%
S&P 500	+13.8%
London FT 100	+10.9%
Dow Jones Industrial Avg	+8.7%
10 Year US Treasury Note interest rate 3.45%	+53.1%
Intrinsic Metal Value Of U.S. Coins	
Lincoln cent 1959-1982	1.89¢
Lincoln cent 1982-date	0.48¢
Jefferson nickel non-silver	4.80¢
Roosevelt dime, 1965-date	2.18¢
Washington quarter, 1965-date	5.44¢
Kennedy half dollar, 1971-date	10.89¢
Selected Wholesale Commodity Prices	
Copper	+116.7%
Regular gasoline	+88.2%
Nickel	+80.2%
Sugar	+78.0%
Zinc	+61.2%
Coffee	+37.0%
Natural gas	-48.9%

Central Banks Become Net Buyers Of Gold

One risk factor for higher gold prices which I listed last month was that European central banks had pretty much stopped liquidating their gold reserves in the last few months.

One of the most respected analysts of gold activity, GFMS (formerly known as Gold Fields Mineral Services), reported last month that "Central banks' swing into net demand territory during the second quarter of 2009 was something of an exception."

The exception is that this is the first time that central banks, in total, have purchased more gold than they have sold since 1987!

However, GFMS went on to say "We do not believe that this heralds a sustained shift by the official sector from being a net seller to a net buyer. This is above all the case over the next two to three years due to the very high probability that the IMF will dispose of 403 tons of gold."

In its latest report on gold demand and supply statistics, GFMS refused to include central bank gold purchases as part of demand. Paraphrasing their explanation, they said that since central banks are not normally net buyers of gold, they refuse to include it as an element of demand.

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GFMS expects that China will sharply curtail its gold purchases. It said, "Nevertheless, any direct, large scale purchases from China in the open market would seem very unlikely . . . . instead of more visible and highly sensitive transactions in the international market, we may see further discreet and relatively modest official purchases in the local market."

Though GFMS is a highly regarded source of information on gold supply and demand, I think their current analysis on central bank purchases is contradicted by the facts.

I can just about guarantee than any IMF gold sale that might (and it is still not a "for sure" event) occur will be completely absorbed by other central banks. China has not only stated in late April that it was willing to purchase the entire 403 tons of IMF gold, but it was actually willing to purchase the entire IMF 3,200+ ton gold holdings. This is absolutely a statement of a large scale purchase that would be visible and would not be either discreet or relatively modest. The only part of the GFMS analysis that would be correct is if China did purchase the IMF gold, it would not be a transaction on the "open market."

France, which had been the largest seller of central bank gold over the past several years, has stated that it will no longer sell gold. Germany has also stated that it will not sell gold. Since Switzerland made it clear that it would not sell any more gold reserves to help out the US government, the US government has retaliated against the huge Swiss bank UBS seeking records about the bank's American customers (of course, maybe the timing is coincidental).

In its latest monthly report released last week, Russia's central bank disclosed that it had acquired 600,000 ounces (18.7 tons) of gold from late June to late July. It has purchased gold every month for well over a year. China's buyers have been detected making some purchases which GFMS' analysts failed to note.

In my opinion, central bank gold sales in the coming few years, even if the IMF gold sale does occur, will be more than offset by rising central bank purchases. As such, that means that the GFMS statistics for gold demand will continue to be understated in the coming years—as has been the case every year since at least 2003.

Pictures from the 2009 Los Angeles ANA Convention: LCS General Manager Pat Heller with US Mint Director Edmund Moy (left) and 1992 Olympic Half Dollar Co-designer Steve Bieda (right).

GATA Appeals Federal Reserve FOIA Response

Last week, the Gold Anti Trust Action Committee (GATA) filed an appeal to the Federal Reserve's response to its April 2009 Freedom of Information Act (FOIA) request that sought information on the Fed's involvement with gold swaps.

The appeal knocks the Fed's response for several reasons. First, the Fed claimed an exemption from disclosure for 137 pages of documents. However, the Fed did not identify the specific exemption for each document as had been requested in the FOIA request.

Second, the Fed turned over 173 pages of documents, which were represented as being released in their totality. However, there are several sections of apparent gaps where data has been omitted (redacted). Since the Federal Reserve stated that the documents were released in full, GATA has requested that the full documents now be released.

Third, this was GATA's second FOIA request to the Federal Reserve on the issue of gold swaps. The 173 pages of documents received for the 2009 FOIA request all pre-dated the 2007 FOIA request, which means they should have been released in the response to the earlier FOIA request. This establishes a likelihood that the Federal Reserve has failed to adequately search or disclose relevant documents. Further, the Fed response admitted that it had copies of relevant records that originally appeared on the Treasury Department website, but failed to include them in its response.

Fourth, a simple GATA search of the Federal Reserve website turned up a document on gold swaps that was not included among either the disclosed documents or a document that was listed as exempt from disclosure.

Fifth, one of the reasons generally cited for not disclosing information was that it would reveal trade secrets or commercial or financial information. GATA pointed out that the relationship between the Federal Reserve and the US government gold supply is a matter of public trust, and is not a private commercial or financial relationship. Moreover, whatever relationship exists between the Fed and the US government gold holdings does not involve "trade secrets."

Whatever happens with the appeal, the Federal Reserve looks to be illegally hiding something or incompetent (or both).

German Central Bank Confirms Gold Reserves Are Stored In US

For years, Bundesbank, the German central bank had insisted that it had custody of all of its gold reserves, despite indications that it had engaged in swaps where the replacement gold was stored in the vaults of the Federal Reserve Bank of New York.

On March 17, 2008, the day that Bear Stearns failed, international journalist Max Keiser was told by a Bundesbank official that much of their reserves were indeed stored at the New York Fed. For whatever reason, he did not report this information until early August this year when he stated, "The most fascinating thing I've learned is that all of the gold in Germany is in New York."

Since then, the Bundesbank has been deluged with questions asking for confirmation of this information. Two days ago, the German central bank confirmed to Rob Kirby, a market analyst in Toronto, that it did have significant gold reserves in New York and elsewhere outside of the country.

A few years ago Bundesbank officials admitted that it had engaged in gold swaps on behalf of another central bank, but did not identify the other party. At the time, several analysts figured that the US government was the other party, having engaged in the swap to facilitate gold price suppression activities. This occurred about the same time the US Treasury stopped referring to its gold holdings as "reserves" and began labeling them as "custodial gold and silver reserves."

Although Bundesbank officials claim to have audited their holdings outside the country, including the serial number of each bar, there is some speculation that some of these bars may also be subject to the claims of other parties.

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In particular, if the German central bank were to insist on the repatriation of its reserves outside the country, that could put the US government on the spot. If some of these same gold bars have also been committed to gold price suppression activities, that could force the US government to have to find a lot of physical gold in a hurry or finally admit the extent of the effort to manipulate gold prices downward.

Keiser's report has started some turmoil in Germany, which could end up becoming a Parliamentary matter. I'll pass along any developments. If it turns out that some of this gold has been used to suppress gold prices and the public learns of this, that would almost certainly cause the price to rise quickly.

New Central Bank Gold Agreement

The second five year Central Bank Gold Agreement (CBGA) will expire next month. A new five year agreement was adopted in early August by 19 signatories.

Several other central banks that did not sign the agreement have stated they will conduct their gold transactions within the limits of the agreement. All together, these signing and cooperating central banks hold about 85% of official gold holdings worldwide.

The current agreement limits central bank gold sales to 500 tons (16.1 million ounces) of gold per 12-month period. The new agreement reduces this limit to 400 tons (12.9 million ounces) and explicitly notes that any gold sold by the International Monetary Fund (IMF) would be included in this total.

As noted earlier, central bank sales have dropped sharply. For the last 12 month period of the current agreement, it looks like sales may not reach 150 tons, which is only 30% of the limit!

During the second five year agreement, central banks never sold the full quota of gold for any 12 month period. In fact, the sales continuously declined for each subsequent year.

I believe that the new limit of 400 tons has no basis in reality. Rather I consider it one more feeble attempt to make it appear that more physical gold could come onto the market as a tactic to help hold down gold prices.

The Strategy Today

In deciding whether you need to purchase precious metals or rare coins, first consider your own financial circumstances and your outlook on the overall economy and your own financial future. After that step, please refer to the table at the right showing my current recommended holdings in precious metals and rare coins as a percentage of net worth and the allocation among gold, silver and rare coins.

While I like the prospects for both gold and silver, I expect silver will outperform gold over the next few years. Silver is a smaller market, with greater volatility in both directions. My long-term forecast is for a gold/silver ratio (the spot price of gold divided by the spot price of silver) somewhere in the 35-40 range. As the ratio is in the mid-60s, that tells me that silver is currently the better buy.

However, you never know for sure. For the conservative buyer, I recommend equal value allocated to gold and silver. For the more aggressive, between the two metals I would go up to 60% silver versus 40% gold.

While rare coins have a potential for higher gains than gold or silver, they also have a greater risk of loss, are less liquid, have a wider buy/sell spread than bullion, and involve a longer time commitment. For many people they are not suitable at all. Even for the most aggressive risk-taker, I still would only allocate a maximum of 25% of total "hard asset" holdings to numismatic items.

In terms of timing, I think the sooner you take action, the lower your costs will be. Also keep in mind that if we see a decided buying frenzy develop such as happened last fall, your choices may be limited and delivery times may be drawn out. For best results, I urge you to take action early.

Summary Of Current LCS Recommendations For Precious Metals and Rare Coins

Percentage of your total net worth to allocate to precious metals and rare coins:

Conservative	Moderate	Aggressive
10-15%	20-30%	Over 30%

Percentage to allocate for each category of precious metals and rare coins:*

	Conservative	Moderate	Aggressive
Gold	50%	40%	30%
Silver	50%	50%	45%
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 prudent we have omitted them from our allocation.

ANA Show Report

The American Numismatic Association (ANA) held its annual summer convention in Los Angeles in early August. This is one of the largest coin shows of the year, attended by more than a thousand coin dealers. General Manager Pat Heller and Chief Numismatist Allan Beegle represented LCS.

Generally, the numismatic market as a whole will either be active or be quiet at such a show. It was different this year in that several areas were very strong while others languished.

First off, attendance for the first few days was significantly down from prior years. The general economic problems almost certainly had an effect on this. However, this was also the first show where the ANA imposed an admission charge on non-members, which almost certainly discouraged attendance by the general public.

Among the areas that were extremely strong at the show were **Generic ("Blue Chip") US Gold Coins**. A primary reason for this was that the bankruptcy of wholesaler National Gold Exchange (NGE) two weeks earlier had led to defaults by that company on delivering US Gold Coins to coin dealers who had ordered them. As a result, these dealers were scrambling to get inventory from other sources. Circulated $5.00 Liberties and almost all grades and types of $20.00 Double Eagles led the way, with prices rising continuously through the show. I expect this to be only a temporary supply squeeze as the inventory seized by NGE's secured creditors will eventually be sold back onto the market.

Also, **High Grade Common-Date Morgan and Peace Silver Dollars** were exceptionally active. Prices didn't really rise for the show, but dealers who had any quantity of these coins in stock at the start of the show pretty much went home with a bunch of checks instead of coins. In the weeks since, these coins have moved up in price slightly. Wholesalers report continuing strong demand, so don't be surprised to see significantly higher prices in the coming months.

Any deals in **World Gold Coins** were few and far between and sold quickly. Allan was fortunate to be in the right spot at the right time to scoop up a tube of **Mint State-60+ 1900 Denmark 10 Kroner Gold Mermaids**. If he had not bought the coins when he did, they probably would have been gone within five minutes.

There were several areas of the rare coin market that were noticeably slow. For example, many **Key-Date US Collector Coins** that have enjoyed substan-

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tial price increases in recent years were not finding buyers at the show. Several niches of **US Paper Money** were also slow, especially the common **Small Size Paper Money** that was heavily promoted over the past few years. In general, the coins I have warned our customers over the past two years as being overvalued were those that were slow to sell at the show.

Then there were areas of the market with robust demand but little inventory to be found. Two years ago, I did a series of analyses of different US coin series to identify the coins that were undervalued. In general, the dates and grades of coins that earned my Highest Recommendation for appreciation potential are much more difficult to find than they were a few years ago. Normally there is so much inventory available at an ANA show that it is easy to find a few bargain lots to pick up. This year, there were so few of the desirable coins around that LCS may have set a record for the least amount ever spent at an ANA show!

LCS enjoyed record high sales for any ANA show but that was just luck. In the week before the show, we had made substantial purchases of Common-Date US Gold Coins from dealers and retail customers. As we didn't have much other inventory to take, that proved to be the right merchandise to take to the show.

Other dealers and wholesalers who had substantial US Gold Coins or Mint State Silver Dollars went home happy. Most dealers seemed to be doing enough business to make the show worthwhile, though they described it as well below normal ANA shows.

I had the opportunity to meet Edmund Moy, the Director of the US Mint. When I asked him whether the Mint would be issuing fractional-size **American Eagles** or **Proof Silver Eagle Dollars** in 2009, he told me that the Mint was committed to making such coins. But then he went on qualify his comment by saying that whether they were made would depend on future market conditions.

It was also fun to see Steve Bieda at the show, who is Michigan's only living designer of a US coin (the reverse of the 1992 Olympic Half Dollar Commemorative).

In general, the stronger market niches continue to be those that I have previously recommended. In the short term, I foresee that Blue Chip or "generic" coins such as **Mint State Common-Date Morgan and Peace Silver Dollars** and **High Grade Common-Date Classic US Gold $1.00 through $10.00 Denominations** will do well.

Areas I had identified as being overvalued are generally weaker now. I will keep you posted on developments.

By the way, the Smithsonian Institution and the US Mint announced an agreement at the show where some of the special coins in the Smithsonian holdings would become part of a traveling exhibit that will go to six or eight cities over the next two years. If you live close to any of these venues, it would be a great chance to enjoy some history.

The Month

Gold Range	40.25	4.3%
Net Change	+17.00	
Silver Range	1.73	13.1%
Net Change	+1.01	
Gold/Silver Ratio	66.2	
Net change	-3.8	
Platinum Range	121.00	10.3%
Net Change	+66.00	
Platinum/Gold Ratio	1.31	

Date	Gold	Silver	Platinum
Jul 29	927.25	13.25	1,172.00
Jul 30	935.00	13.48	1,189.00
Jul 31	953.75	13.93	1,214.00
Aug 03	956.50	14.25	1,240.00
Aug 04	967.50	14.69	1,277.00
Aug 05	964.25	14.75	1,293.00
Aug 06	960.75	14.64	1,263.00
Aug 07	957.25	14.66	1,268.00
Aug 10	945.00	14.34	1,251.00
Aug 11	945.75	14.34	1,245.00
Aug 12	950.75	14.58	1,244.00
Aug 13	954.75	14.98	1,273.00
Aug 14	947.00	14.72	1,262.00
Aug 17	934.25	13.97	1,223.00
Aug 18	937.75	13.96	1,232.00
Aug 19	943.25	13.87	1,241.00
Aug 20	940.25	13.88	1,242.00
Aug 21	953.25	14.16	1,259.00
Aug 24	942.25	14.19	1,248.00
Aug 25	944.50	14.31	1,248.00
Aug 26	944.25	14.26	1,238.00

London Silver Market Premium To New York Silver Market = 4¢

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

Silver and Silver Coins

Silver closed today at $14.26, up a strong $1.01 (7.6%) from four weeks ago!

In the past month, we have enjoyed an extraordinary demand for silver bullion-priced merchandise. We have sold more US Silver Eagle Dollars (15.7%) than we have ever sold in a single month, for example.

Because of its low premium and high purity, we have also sold a good quantity of US **90% Silver Coin** (5.0%). Usually when the price of silver rises as much as it has in the past four weeks, you tend to see the premium on 90% Coin drop somewhat. However, buying interest is so strong that the premium is virtually identical to last month.

So far, most all silver bullion-priced products are readily available.

The US Mint will be releasing its Fall 2009 catalog tomorrow. The Proof Silver Eagle is not included, as it is still uncertain whether the Mint will produce them.

As Mint Director Moy explained to me, they will not strike any proofs unless they are in a position to make a large enough quantity to cover the capital costs of starting production. If the Mint does go into production, there is some prospect that they could be the lowest mintage year thus far, which would almost certainly guarantee a quick profit to those who order them from the Mint.

As I mentioned earlier, **Mint State Common-Date Morgan and Peace Silver Dollars** are in solid demand right now. I anticipate they will be harder to find and priced higher in the months to come.

Gold And Gold Coins

Gold finished today at $944.50, up $17.00 (1.8%) from last month.

The low premium best buys continue to be the Austria **100 Coronas (**3.8%), Mexico **50 Peso** (3.8%, and US **American Arts Medallions** (3.8%). At a premium of 4.3% **1 Oz Gold Ingots** are also worth considering.

Almost all gold bullion-priced products are currently available with little to no delay. The big exception is the US **Buffalo**. None have been manufactured in almost a year. Mint Director Moy told me the same answer for 2009 Buffalo production as he did for the fractional Gold Eagles and Proof Silver Eagle Dollars—the Mint is committed to making them but cannot guarantee that they will actually do so.

Right now, wholesale supplies of Buffaloes are so scanty that we cannot quote regular prices. We occasionally do have small quantities, so you are welcome to check with us, though you can expect to pay at least $130 over the spot price for them.

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