Liberty's Outlook

Our 30th Anniversary! 1971-2001

Volume 7 Issue 5 Liberty Coin Service's Monthly Review of Precious Metals and Numismatics May 2, 2001

Special Urgent Action Alert!

Are Gold And Silver On The Brink Of Major Price Explosion?

May 10 Meeting In Durban, South Africa To Reveal Extra 109 Million Ounce Gold Shortage!

Is Strong Run Of U.S. Dollar Almost Over?

Key Indicators Forecast Higher Inflation Soon!

The gold market has experienced a multi-year supply deficit in the face of growing demand. In normal circumstances, this shortage would have long since boosted prices.

But it has not.

Summary Of This Month's Recommendations

For "insurance" purposes (that is, protection against financial calamity with your intangible paper assets such as stocks and bonds), we generally recommend that 10% of your net worth be allocated to tangible hard assets of gold, silver, platinum or rare coins.

Depending on one's comfort with risk, we suggest allocating your hard assets as follows: 35-50% in gold bullion, 40-50% in silver bullion, 0-5% in platinum, and 0-25% in numismatics.

With little risk and the significant possibility that the prices of gold, silver, and rare coins may rise sharply, we now suggest that you consider increasing the hard asset portion of your net worth to 20%. Here are our current top picks for the various categories:

Gold Bullion: Low-premium forms such as **U.S. American Arts Medallions** and **Austria 100 Coronas**.

Silver Bullion: **U.S. 90% Silver Coin** has the lowest premium and is still readily available.

Numismatics: For low risk and higher than average appreciation potential, go with **MS-63 U.S. $20.00 Liberties** and **MS-64 U.S. Peace Silver Dollars**.

The extensive shorting of the gold market with paper contracts has kept prices down—and then some—for now. Threats of even more forward sales by mines and short sales by investors have clobbered the price for many years. Far too long in the eyes of some knowledgeable analysts.

Recently, I was thinking of what it would take to finally push the price of gold up dramatically. Since the basic long term fundamental shortage of supply was not sufficient, some other reason would have to provide the impetus.

I came up with three specific scenarios that would help the price of gold:

- A revelation that the gold shortages are much larger than reported by Goldfields Mineral Services (GFMS), the company that provides gold market information to the World Gold Council and others;
- A major drop in the value of the U.S. dollar;
- Or the specter of soaring inflation.

Any one of these developments might be sufficient to spark a rally. If two of these events came to pass, a major run would be almost certain.

In the past few weeks, new information has come out that points to the possibility that all three may occur within the next fifteen months—with the first hitting the market next week!

GATA's Evidence Of Huge Additional Gold Shortages!

On April 19, Reginald H. Howe, consultant to the Gold Anti-Trust Action Committee (GATA) filed new papers with the court handling the lawsuit filed by GATA over two years ago.

Special Edition!

Because of the time-sensitive, extraordinary information contained in this issue of *Liberty's Outlook*, we consider it our duty to disseminate the news far and wide.

Thousands of extra issues of this newsletter are being sent on a complimentary basis to the media, to past LCS customers, and to financial advisors and commentators across the country!

The original lawsuit claimed that the U.S. government and a cartel of bullion banks had manipulated the price of gold to their benefit, while harming mostly poor gold-producing nations in the process.

Defendants to this lawsuit are: the Bank for International Settlements (BIS); Alan Greenspan, chairman of the Board of Governors of the U.S. Federal Reserve System and also a director of the BIS; William J. McDonough, president of the Federal Reserve Bank of New York and also a director of the BIS; five major bullion banks—J.P. Morgan & Co., Chase Manhattan Corp., Citigroup Inc., Goldman Sachs Group Inc., and Deutsche Bank; and Lawrence H. Summers, former U.S. Secretary of the Treasury, who by law exercised control over the U.S. Exchange Stabilization Fund (ESF), subject only to the approval of the president.

Part of the U.S. Department of Justice's memorandum on behalf of the Secretary of Treasury's motion to dismiss the lawsuit asserts and re-emphasizes the secretary's contention "that in fact the ESF has no holdings of gold and has not traded in gold or gold

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derivatives since 1978."

Repeatedly, Greenspan directly and Summers indirectly have asserted that neither the Federal Reserve nor the Secretary of the Treasury acting through the ESF has authority to manipulate the dollar price of gold.

In a letter to Senator Joseph I. Lieberman dated January 19, 2000, Greenspan stated that transactions by the Federal Reserve "aimed at manipulating the price of gold or otherwise interfering in the free trade of gold, would be wholly inappropriate."

Likewise, Summer's subordinates (though not Summers himself) denied any interventions in the gold market by the ESF and have made those assertions in dozens of letters to congressmen and others.

In Durban, South Africa on May 10, at the GATA African Gold Summit, the following newly discovered information (dug up by researchers James Turk and Reginald Howe) will be detailed:

The "smoking gun" is included in the publicly-released 145 pages of the censored minutes of the Federal Open Market Committee (FOMC) meeting of January 31, 1995—a meeting held to consider options for a financial bailout of Mexico's Wall Street bankers after a direct subsidy from U.S. taxpayers was turned down. The Fed's general counsel, J. Virgil Mattingly, made a revealing response to a question posed by then Fed Governor Lawrence Lindsey (who is now President Bush's chief economic advisor!) about the legal authority to implement a financial rescue package.

Said Mattingly, "It's pretty clear that these ESF operations are authorized. I don't think there is a legal problem in terms of the authority. The statute (31 USC Section 5302) is very broadly worded in terms of words like 'credit'—it has covered things like the *gold swaps*—and it confers broad authority."

Another damning detail is that the August 2000 Status Report on U.S. Treasury-Owned gold identifies all 1,700 tons (54.7 million ounces) of gold stored at West Point as "Gold Bullion Reserve."

In the September 2000 report and in all subsequent reports, the gold at this facility (about 21% of the U.S. government gold reserves) has, without explanation, been described as "Custodial Gold." The description of gold held at Fort Knox and at the U.S. Mint in Denver continues to be described as "Gold Bullion Reserve."

There is a reason that the description of the gold at West Point was deliberately changed. Obviously, it is because the U.S. government no longer owns the 54.7 million ounces of gold.

What happened?

By comparing this data against that provided by the German central bank, **the researchers came to the conclusion that Germany has sold or leased all 109.3 million ounces of its gold holdings, with half of it to be repaid out of the U.S. treasury when the gold swap unwinds.**

The 36-page motion filed on April 19 lays out lots more details of how carefully the gold market has been manipulated since 1994 to hold down prices.

1) In the past two years, Chase Manhattan has been a heavy seller of gold on the New York Comex whenever needed, selling gold that it did not have! Two further independent analyses back to 1994 show a pattern of heavy selling by Chase Manhattan to counter threatened or developing price surges.

2) Two strange events transpired in 1999. First, President Clinton proposed that the International Monetary Fund (IMF) sell some of its gold holdings, ostensibly to benefit the world's poor. When doubts about this sale arose (and the program has since been altered to have no effect on the price of gold), the price of gold again started to rise.

On May 6, 1999, gold closed in the U.S. at $290.25 and was poised for a major move upward. Before gold could start trading in New York the next day, the Bank of England announced that it would begin auctioning most of its gold reserves. British officials have never been able to agree who made the decision for these sales. They have also never explained why the method of sale was selected that would guarantee that the gold would be sold for the lowest possible price!

3) The motion also points out that the Bank of England auctions have been timed specifically to hit about a week before the bimonthly expiration of COMEX contracts, many of which are hedged. The motion states that the sales were deliberately set up to provide physical gold to cover expiring hedges.

4) Statistics provided by the Office of the Comptroller of the Currency from the last quarter of 1998 through the first quarter of 2000 show the gold derivative trading activity of Morgan, Chase, and Citibank. All made major increases in derivative activity in the four days after the announcement of the Washington Agreement on gold sales with the eventual effect of knocking down prices. They repeated this activity in the first quarter of 2000 when gold again topped $300.

There's a lot more. For the full text of this motion, go to the GATA website at www.gata.org, then click on "Howe Lawsuit" on the menu at the left.

At the minimum, GATA projects that the U. S. and German governments, through their central banks, have put more than 109 million ounces of previously unreported gold onto the market since 1994. As it would be almost impossible for U.S. gold reserves to be moved without detection, the physical gold from Germany was used. To compensate the German central bank, the U.S. merely made a bookkeeping entry on its books without having to move any gold.

What Does This Shortage Mean?

Why would anyone want to manipulate the price of gold to hold it down? There are several reasons actually.

The most important would be to take advantage of the difference between gold lease rates that are typically 1-1.5% per year and the much higher interest rates that can be obtained on U.S. Treasury debt.

For example, a bank could lease a million ounces of gold at 1.5%, then sell it for perhaps $290 per ounce. It then uses the proceeds to buy Treasury debt paying 5% interest. At the end of a year, if the price of gold remained unchanged, the bank would have a profit of $10,150,000. If the price of gold had fallen to $270 and the bank closed out the lease at this lower price, it would make a profit of $30,150,000. On the other hand, it the price of gold rose to $310, it would lose $9,850,000.

As long as gold prices remain stable or decline, banks (and the gold mines who also did this) could make huge profits using someone else's assets. For many mining companies, the profits from financial activities exceeded the profits from actual mining operations!

Of course, if the gold price rose, it would be a disaster for banks and the mines. However, Alan Greenspan told the bullion bankers in 1998 that they need not worry about rising gold prices because "central banks stand ready to lease gold in increasing quantities, should the price begin to rise." If bankers needed a green light to take the risk, that was it!

Remember, this 109 million ounces of extra gold dumped onto the market in the past seven years is a conservative figure. Researcher Frank Veneroso thinks that the correct total is much higher, possibly over 500 million ounces (over half of all gold allegedly still held by central banks and governments)!

Now that GATA has caught the U.S. government in the big lie about doing no gold trading, it may be even harder to find out the true extent of the gold swaps and leasing that has occurred. I certainly would not want to take on the U.S. government and all the other defendants.

However, GATA is playing it smart. The May 10 meeting will be attended by the major "victims" of the alleged price

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manipulation: government officials from South Africa and other African gold-producing nations, representatives South Africa's National Union of Mineworkers, other major gold producers, as well as the world press.

I'm sure that GATA is counting on this publicity to help pressure the defendants to come clean.

GATA may also have an ally from an unexpected source. It is possible that President Bush is less comfortable with the government rigging the gold market than was former President Clinton—especially when this manipulation is done in the public eye.

I don't think the impact on the market will begin and end on May 10. It could easily take years to drag all the details into the limelight.

As the furor erupts however, expect many traders to quickly begin repurchasing physical gold to close out their leases and gold swaps. Even before all the details come out, the price of gold could easily jump $50-100 in a matter of weeks!

The major banks that are defendants in the lawsuit could be seriously hurt almost overnight, with immense negative fallout on the value of the U.S. dollar and all U.S. stocks and bonds. Foreigner investors in the U.S. would not be able to get the money out of the America fast enough.

Now, as this scenario starts to play out for gold, it will influence the silver market right along with it. Traders with short positions will try to find physical silver to close out those contracts. Because of the far greater shortages in the silver market since 1990, the potential price rise this time could top 1980!

And rare coins? If things get shaky, look for every common-date U.S. gold coin and silver dollar to disappear within weeks! Prices would go through the roof, easily setting new records. Unless you buy these coins before the crisis sets in, you probably won't be able to find them at any price.

I am not advocating that you take on new debt to sharply increase your bullion and rare coin holdings. But I do think you should seriously consider taking immediate action to double your hard asset holdings from 10% to 20% of your net worth. Not tomorrow—today!

But what if things don't get out of hand after the May 10 meeting? Well, to me there seems very little downside to the gold, silver, and rare coins markets right now. And all you have to do is wait for the dollar to drop next year, or for inflation to get much worse.

Is The U.S. Dollar Due For A Fall?

The U.S. dollar has continued to be surprisingly strong in the past year, despite the disappearance of $4 trillion of paper wealth and falling interest rates. This strength has baffled far more knowledgeable minds than mine. I always wondered where that extra $50 billion of currency that the Fed released in 1999 (to help overcome Y2K worries) was absorbed.

Well, there may be a reasonable explanation.

In a recent speech, a professor from McGill University in Montreal (sorry, I can't find his name right now), claimed that the U.S. dollar is being propped up right now by demand in Europe.

As most of you know, 11 European nations will abolish their national currencies next year and finish replacing them with a common monetary unit called the Euro.

However, there is a problem with this changeover that I had not seen discussed before this professor's speech. There will be a conversion period next year when the citizens of the 11 nations (including France, Germany, Italy, and the Netherlands) will be required to turn in their old money for replacement with Euros.

Unfortunately, according to government statistics of each of these nations, the informal economy (also known as the black market) accounts for 20% to 60% of Gross Domestic Product (GDP). The citizens don't want to get caught turning in large amounts of cash that were never reported as income and on which no taxes were ever paid.

As a result, there is a tremendous demand now to exchange these local currencies into U.S. dollars, which will still be a viable currency after the Euro conversion.

As the Euro conversion (a one-time event) begins, expect demand for U.S. dollars to fall sharply. That puts the U.S. dollar at a high risk of a decline by next summer at the latest. How much? It's hard to tell. But it would be better to buy your gold, silver and rare coins now rather than later.

And Here Comes Inflation!

While the Fed was busy with a surprise interest rate cut on April 18, two key economic indicators warned of rising inflation.

First, in the middle two weeks of April, while many other interest rates fell 0.5%, 30-year U.S. Treasury Notes rose 0.34%!

Second, the differential between the yield on 10 year Treasury Notes and on the 10 year inflation-adjusted Treasury Notes is up to almost 2%. In other words, in order to be protected against anticipated rising inflation, the market is demanding a much higher price to accept a fixed interest rate.

These early warning signals are bound to influence investor decisions with other paper assets. Look for other debt instruments to carry higher interest rates, even if the Fed continues to drop the discount rate.

As the worries that inflation will make paper assets worth less over time (the M3 definition of currency has been rising at 9%+ for some time now), look for another shift to hard assets just like we experienced in 1979-1980. Once again, the best time to protect yourself is now.

Chinese Numismatic Market Catches Fire!

When we offered the 1997 China 1 Oz silver Unicorns two months ago, I briefly described the ups and downs of the Chinese numismatic market. I said "That nation's numismatic market is beginning to recover."

And how!

Demand in China has grown so strong many prices are up sharply. Virtually all 2001-dated 1/10 and 1/20 Gold Pandas and all 2001 Silver Pandas that were in U.S. wholesaler inventories a few weeks ago have been shipped back to China. No more supplies will be coming to the U.S. this year.

Even the Unicorns that we offered are up. The Chinese dealers were paying much more for them than we paid for the group we bought. If you were smart enough to buy some, pat yourself on the back.

Gold and Gold Coins

Gold finished today at $265.25, up $6.75 (2.6%) from last month.

There really wasn't much movement in the gold market in April, though gold does seen to be forming a solid base around $260. Rather than discussing these minor details, let me go over what is likely to happen in the gold bullion market if we do see gold prices rise dramatically in a short period of time.

Doubtless it will be similar to what we saw in the 1979-80 boom. If gold reaches $300 and keeps going, expect to see sellers as each threshold is reached. Premiums will fall across the board, but will fall the most on the higher premium bullion issues. Therefore, it makes no sense to buy anything other than the lowest premium forms: the U.S. **American Arts Medallion** (2.7%) and Austria **100 Corona** (2.9%).

I especially like the Medallions, issued by the U.S. Mint from 1980 to 1984, because they have more potential for a numismatic premium in the future than do any other low premium gold issues.

Premiums on **Classic U.S. Gold Coins,** those struck before 1934, might rise early on, amidst the frenzy of disappearing inventories. Simply, there are a lot less of them around than there are of **Maple Leafs** (5.2%), **Krugerrands** (2.9%) and **Eagles** (5.2%). Among the various gold coins, I think the **MS-63 $20.00 Liberty** is the best buy today and may also appreciate as well or better as any other U.S. Gold Type coin. See our enclosed flyer.

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Silver and Silver Coins

Silver closed today at $4.37, up three cents (0.9%) from four weeks ago.

The silver market would react to a major price rise just like the gold market. The best lowest price form of silver to is U.S. **90% Silver Coin** (7.2%). It is readily available now, but could become scarce as demand rises. However, by the time silver passes, $7.00, expect all premiums to fall, with U.S. **Silver Eagle Dollars** (41.3-55.0%) falling more than other products.

Among numismatic silver coins, **the MS-64 Peace Dollar** looks like the lowest risk opportunity with high appreciation potential. Check our offer for details.

Thanks For Twenty Great Years (With More To Come)!

On May 4, I will celebrate my 20th anniversary of beginning to work here at LCS. It has been an amazing ride that whets my appetite for what the future will bring.

I first became an LCS customer in 1975, when I was working in the Detroit area as a Certified Public Accountant. I had spotted the Liberty Coins ad in *Reason* magazine and started to visit occasionally.

I became friends with LCS founder R. W. "Bill" Bradford. When the bullion boom of 1979-80 came and went, Bradford had done well enough to retire. He had also been impressed by my business acumen and by the sizeable profits I made with my rare coin and bullion holdings. In mid 1980, he asked me if I was interested in buying LCS.

The idea had appeal. I began coin collecting in 1964. When, as a high school sophomore, I had to do a term paper on the career I intended to pursue, I didn't feel that it was acceptable to make coin dealer my first choice, so I wrote about being a meteorologist, instead. But the idea of owning my own business was always in the back of my mind.

In college I chose accounting because the courses were easy for me, and CPAs made good money. But I also took many elective courses about running a small business.

Anyhow, when Bradford asked if I wanted to be a coin dealer, I turned him down. I loved the work I was doing, the firm I was with, and the clients I served. I was almost ready to make partner.

When Bradford received a purchase offer from another potential buyer, he asked my advice, as a friend, what I thought of the tax consequences of the deal. Well, the Bradfords would have been in the worst possible tax situation, which the potential buyer and his attorney disputed. After I proved my interpretation was correct, that deal fell through.

From then on, it seemed like Bill was determined that I would buy LCS from him. It took another six months, but it happened.

What attracted me to LCS back then still applies today—a major coin dealer (now the largest) in Michigan, a staff with deep experience, and a great location.

LCS has grown tremendously in the last 20 years. Our customer base and sales volume is many times higher. We have handled some amazing coins. And you never know what the next visitor or caller may have to offer.

Even more enjoyable than the merchandise is the people. Twenty years ago, Chief Numismatist Allan Beegle and Store Manager Paul Manderscheid were already here. Tom Coulson started doing casual jobs down here in 1983 when he was in junior high school. He worked here through getting two degrees from MSU, then left for three years to become a CPA (he was the 2nd CPA I've helped develop whose first job was here at LCS). But Tom loves coins a lot more than accounting, so he's been back for almost two years.

Bob Splitstone, an expert on military collectibles, retired just this week after helping customers for nine years. Thanks for the help. And Barb Robinson (7 years), Charles Tassinare (4 years), David Hartung (3 years), Nancy Ball (2 years), and Bob Sweet (2 years now plus some time in the 1980s) have been pleasant lifesavers around here. Thank you and thanks to all who have served in the past.

It turns out that the coin industry in Michigan and across the nation has a lot of wonderful people in it. They come from a wide range of backgrounds, which makes for interesting dinner conversations. I have been a guest at several dealer friends' homes from coast to coast. Thank you for all the friendship, goodwill, and good deals.

I have been honored many times by the number of unsolicited endorsements we have received from independent investment writers. Thank you friends.

But, what impresses me most about working here is the caliber of customers we have. You are simply great! Compared to industry benchmarks, our customers last five times as long and make four times as many purchases as they do with a typical dealer. LCS still has a number of customers who were dealing with LCS before I got here!

You must like our combination of price, product, and service, because you have also become our largest source of new customers over the years. When you give us a pat on the back by referring someone else to us, it is a complement that inspires us to work even harder for you.

I've told you before, but I mean it when I say that LCS has the best customers in the world! And we do—in all 50 states, DC, Puerto Rico, the Virgin Islands, Guam, and a number of foreign countries on six continents!

Thank you! Thank you! Thank you!

This job enabled me to grow in ways that I never dreamed in 1981. My lovely wife Pamela, and my children Alina, Mary, Camryn, Daniel, Ashley, and Amy all came into my life in special ways as have my grandchildren. They each presented challenges and immense rewards. I am truly blessed and inspired with them in my life. My family makes life great!

All of the above makes me eager to see what the future will bring. Let's do it together!

The Month

Gold Range	$ 7.75	3.0%
Net Change	+6.75	
Silver Range	.13	3.0%
Net Change	+.04	
Gold/Silver Ratio		60.7
Net change		+1.6
Platinum Range	51.00	8.9%
Net Change	+33.00	
Platinum/Gold Ratio		2.27

Date	Gold	Silver	Platinum
Apr 04	258.50	4.33	570.00
Apr 05	258.50	4.35	563.00
Apr 06	260.50	4.33	565.00
Apr 09	258.75	4.32	570.00
Apr 10	257.50	4.33	573.00
Apr 11	259.00	4.36	583.00
Apr 12	260.50	4.36	588.00
Apr 13	closed		
Apr 16	263.25	4.43	606.00
Apr 17	261.00	4.36	607.00
Apr 18	261.25	4.37	614.00
Apr 19	265.25	4.43	610.00
Apr 20	264.75	4.44	610.00
Apr 23	263.75	4.44	602.00
Apr 24	264.00	4.45	600.00
Apr 25	262.75	4.37	596.00
Apr 26	264.00	4.39	590.00
Apr 27	263.75	4.37	589.00
Apr 30	263.50	4.33	587.00
May 01	264.25	4.36	592.00
May 02	265.25	4.37	603.00

London Silver Market Premium To New York Silver Market = 2¢

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

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