Liberty's Outlook

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U.S. Dollar Under Pressure! War Looms On Horizon!

P.3 What Would Happen To Gold And Silver If We Had Peace On Earth And Goodwill Toward All?

In the gold market, supplies are declining and will continue to do so. Although physical gold demand has fallen this year, future prospects are for rising demand. Given those factors, you might have expected prices to be up over the past month. Instead, the gold price was relatively quiet.

Simply, the news over the past month has not brought any significant new developments affecting gold and silver prices.

Instead, it reinforced and added to the growing pressures that could lead to 1) a continued decline in the value of the U.S. Dollar and U.S. Dollar-denominated paper assets (stocks and bonds), and 2) to a sharp rise in the prices of gold, silver, and rare coins.

Here are some recent developments:

Central banks reduce gold leasing activities. With the recent decline of interest rates, 30-day gold lease rates are close to 0%. The cost of leasing $1,000 of gold for one-month is only about 27 cents!

At the moment, the market is awash with gold available for short term leases as central banks are refusing to renew expiring gold leases for longer terms.

What this means is that the time frame when borrowers might have to come up with physical gold to repay their leases is sooner than in the past. Their greater risk of needing physical gold now makes it easier for gold paper traders to squeeze the market upward rather than downward as has been the trend over most of the last several years.

By the way, an alternative way of looking at this development is that it may indicate that the central banks are trying to manipulate the price downward, but have less gold with which to create the illusion of large gold supplies. To magnify the effect of the smaller gold supply, you would concentrate on affecting one market (short-term leases) rather than spreading smaller quantities across the spectrum of leases. I have no data to support a thesis that this is what has happened, but it certainly is possible and plausible.

Strong commodities prices. Historically, gold and silver prices have been strong at the same time that commodities in general are rising. Commodity indices have been weak for several years. But they are moving upward, recently hitting four year highs!

Rising trading volume: Today's gold trading volume in Europe surged about 20%, which normally indicates rising prices. Volumes on the gold and silver commodities exchanges have largely been sliding for the past few years. One day's jump in trading does not represent a long-term trend. But there have been several days where trading volume jumped sharply. I don't have the most recent monthly averages of daily volumes, but the latest I saw showed that the falling volumes came to a halt earlier this year.

Worries about U.S. economic recovery. Just this morning, widely-quoted Hong Kong fund manager and investment adviser Marc Faber predicted that market watchers were overly optimistic in their outlook for the U.S. economy. "I think people are too optimistic about the U.S." he said at his press conference, adding that he is particularly optimistic about gold.

"If you look at the increase in monetary supply in the world, and the increase in debt levels in the world, and you compare it with the increase of gold in the world, there is more and more paper money per unit of gold," Faber said. "So one day gold will have a very great rarity value."

He is also worried about the huge derivatives market, "The leveraging that is being employed is just mind-boggling and I think something will go wrong one day."

Rising demand for physical gold as valued in dollars. The latest World Gold Council report estimates that gold demand for the first three quarters of 2002, as measured in ounces, declined about 12% from 2001 levels. However, if you measure physical gold demand in dollar value, 2002 demand is slightly higher than 2001 levels!

Shanghai gold market now trading. The opening of China's gold market took a major step in October with the commencement of trading on

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the new Shanghai exchange. With little more than a month of experience now, operations are going as smoothly as could be hoped. Some analysts forecast Chinese gold demand to rise to as much as 16 million ounces per year. If that comes to pass, that would increase worldwide physical gold demand by more than 10%.

German central bank again "threatens" to sell gold holdings. Last week, Bundesbank executive board member Hans-Helmut Kotz said that the bank, with the world's second largest central bank gold hoard, may sell some of its gold to "buy more profitable assets." Any such sale would come only after the current Washington Agreement expires in September 2004.

The gold trading market shrugged off this latest statement. For months now, it seems like the Bundesbank has tried to knock down the price of gold right when it is on the verge of a significant price increase. After it had that effect in the past, the Bank then modifies or withdraws their announcement.

So how likely is a German gold sale? Well, let's see. The price of gold is up something like 30% in the past few years while stock markets around the world have tanked and bond yields have almost disappeared. What "more profitable assets" could the Bundesbank purchase with the proceeds of a gold sale? I cannot think of any!

I suspect that the German announcements represent jawboning rather than a genuine plan to sell gold. The German economy is in even worse shape than the U.S., and is perhaps the weakest in developed Europe right now. Any hint that the government is seriously considering selling its gold would further hurt any recovery.

Hard data on gold mines repurchases of pre-sold gold. Gold Fields Mineral Services (GFMS), a precious metals research firm, reported that gold mining companies repurchased about 8.2 million ounces of pre-sold gold in the first six months of 2002, compared to only 1.2 million ounces in the first half of 2001. Although this trend was evident, it helps investment professionals to have some idea of the actual volume that gold supplies are being reduced.

Incidentally, this volume of repurchases almost exactly offset the combined central bank gold sales over the same time period.

Bank for International Settlements loses lawsuit. The Bank for International Settlements (BIS) facilitates transactions between central banks and governments. For instance, it is handling the sale of the gold being liquidated by Switzerland.

Founded in 1930, it used to be owned by a number of central banks and also by a smaller number of private investors. On January 8, 2001 the BIS decided that it would restrict the right to hold shares exclusively to central banks. It approved a mandatory repurchase of the 72,648 shares held by private shareholders at 16,000 Swiss Francs per share (about U.S.$9,950 per share). The total buyout was over $720 million.

Three of the private shareholders challenged the repurchase by filing suit before the Hague Arbitral Tribunal.

The Tribunal released its binding decision November 25. It held that the compulsory repurchase was legally valid but that the price paid was too low. It threw out the valuation analyses provided to the BIS by J.P. Morgan (advisory bank) and Arthur Andersen (independent expert) and mandated an immediate supplemental payment of 7,000 Swiss francs per share as an advance against the final determination of share value. This settlement will apply to all former private shareholders.

Although this news does not directly affect gold, it has a significant tie-in. In the gold-price manipulation lawsuit filed last year on behalf of the Gold Anti-Trust Action Committee (GATA), one of the issues concerned this mandatory BIS share redemption of the BIS shares formerly held by Reg Howe, the plaintiff in the GATA case. When this case was dismissed, the claims against the BIS were tossed out with them.

This successful lawsuit shows a potential way that GATA may be able to sue BIS over the manipulation of the gold price. This supposedly dead issue may yet have new life.

U.S. corporate liabilities for defined benefit pension plans. Publicly-held U.S. companies that have defined benefit retirement plans are required to contribute extra funds when the pension plan experiences losses on its investments or even generates income at a lower rate than forecasted.

The latest tabulation for the companies included in the Standard & Poor's 500 index comes to a $300 billion liability—a liability that will continue to increase as long as investment returns are below 6-10%. These companies will soon have to post these costs onto their financial reports, with the likelihood that another round of falling stock prices could result.

Continuing shakiness in the U.S. stock markets will encourage foreign investors to liquidate their U.S. holdings, further clobbering stock values.

Falling value of U.S. dollar. From 1970 to 1980, the value of the U.S. dollar fell by 70% against a basket of world currencies. Over this period, the price of gold shot up 1600%!

The dollar fell again from June 1982 to February 1983, with the gold price rising 75%.

Then, from February 1985 to November 1987, the dollar was devalued under terms of the Plaza Accords. Gold rose 78% this time.

So far this year, the dollar has declined 14%. The price of gold is up more than 15%, far outperforming alternative investments.

On average, for every 1% decline in the dollar, the price of gold increases about 2%. There is a reason why the increase in the gold price would be more than the change in the value of the dollar.

Gold is quoted worldwide in U.S. dollars. When the dollar drops 1%, the price of gold will increase by an offsetting 1% if the gold price remains unchanged in other currencies.

The factors that add to the increase in the price of gold are the size of the trade deficits and federal budget deficits. When these deficits threaten the value of the U.S. dollar,
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foreign investors are prompted to take a safer approach. Beyond liquidating their U.S. stocks and bonds, they also add to their gold holdings.

In the past few months, the International Monetary Fund (IMF) and the Organization for Economic Cooperation and Development (OECD) have warned that the near-record trade gap could lead to a sharp fall in the value of the dollar.

Goldman Sachs released an analysis estimating that the dollar will have to fall another 43% in value to cut the $400 billion trade deficit in half!

A summer report from Morgan Stanley foresees the possibility of the dollar dropping as much as 20% (or more!) within the next 12 months. Using the formula above, a 20% drop in the dollar points to gold rising above $450.

With foreign investors now holding $1.25 trillion in U.S. government debt (over 1/3 of the total outstanding) and around $1.75 trillion in stocks (about 1/8 of the total), you can see just how much room there is for markets to fall if foreigners bolt from the dollar.

The prospect of war with Iraq. Over this coming weekend, the government of Iraq is supposed to demonstrate a good-faith effort at preventing war by issuing a report about its holdings of weapons of mass destruction. Preliminary indications are that Iraqi officials may claim that they have no such weapons.

However, the Bush administration has already warned that it has compiled a large volume of "evidence" that Iraq has reactivated its programs to manufacture weapons of mass destruction, especially chemical weapons.

In addition, the U.S. press has attacked the caliber of the UN weapon inspection teams in Iraq. Effectively, any inspection team report that concludes that Iraq holds no prohibited weapons will be considered meaningless.

Finally, U.S. military preparations are accelerating. Next week, the last two U.S. aircraft carriers will arrive in the Persian Gulf. Extensive military exercises are also underway in Kuwait, Qatar, and elsewhere in the Middle East.

By the time you receive this newsletter, you may already know how much closer the U.S. may be to declaring war on Iraq. As I write this, the price of gold is already up a few dollars on this concern and we are seeing a lot of new customers in our store buying gold.

Conclusion: As you can see, there are plenty of factors that could cause the price of gold to explode in the next few months. If (when?) this happens, it will almost certainly bring up silver with it. The rare coin market is already rising on its own account; a rising gold price would accelerate that trend.

The demand from India for physical gold and silver rises sharply when gold drops to around $317 and silver to near $4.40.

Decades of watching the precious metals markets remind me that what "should" happen does not always come to pass. However, the risk of any significant drop in gold and silver prices now is dwarfed by the potential appreciation. You will sleep better at night if you have at least 5% of your net worth in hard assets like gold and silver bullion and rare coins. More aggressive investors may want to go as high as 20% of net worth.

What If We Had Peace On Earth And Goodwill Toward All?

I apologize for the preceding discussion having so much doom and gloom to it. With the holidays coming, I'd rather think about peace and goodwill. So here goes.

What would happen to the prices of gold and silver if we really did have peace on Earth and goodwill to all?

It seems to me that a necessary precondition to widespread peace would be a strict regard for private property rights. People will not feel secure enough to harbor lots of goodwill if they cannot trust that they get to keep the fruits of their labors. Areas in the world today where people are poor or oppressed invariably do not have strong support for the sanctity of private property.

Conversely, the parts of the world where private property rights are most secure also tend to be the wealthiest. This is not an accident.

So, in a world with peace and goodwill, we would almost certainly have a greater level of wealth, from top to bottom. With prosperity, I would expect crime to be down. It would also be likely that the problems wrought by government actions would be minimized. As a consequence, there would be less need to hold precious metals as hedges against inflation and oppression.

But, no matter what, the world will never be perfect. Calamities of all kinds will still happen. Just as people will still want to buy insurance to protect their homes, lives, and health, they will also have a need for precious metals to protect against unexpected drops in the value of intangible assets like stock and bonds.

Precious metals have the advantage that they are their own intrinsic asset and not a liability of anyone else. They will always have value for use in jewelry and industrial applications if there is no monetary use for them.

Still, because of their historic track record, even in the age of the internet, I could easily see monetary systems denominated in weights and purities of precious metals. So, I don't see any reason to be concerned that gold or silver might become worth much less than today.

On the other hand, if all of my gold and silver became worthless when a universal peace broke out, I would gladly accept that trade.

Silver and Silver Coins

Silver closed today at $4.56, up nine cents (2.0%) from last month. Silver traded in an extremely narrow range over the past four weeks—just 17 cents (3.8%).

The premium on U.S. **90% Silver Coin** (6.4%) fell enough in the past month that they are available in bag quantities at a lower price, despite the rise in spot silver. It is now the price leader over U.S. **40% Silver Coin** (8.5%), and **100-1 Ounce Ingots** (10.1-14.3%) by 10-36 cents per ounce. Because 90% coin is also the most widely traded form of physical investment silver, the most liquid, and

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the most divisible, it is our top recommendation for silver buyers.

Better-Date U.S. Morgan And Peace Silver Dollars are continuing to creep up in price as demand remains solid and supplies dwindle. Chief Numismatist Allan Beegle was fortunate to acquire a nice lot of **Gem Mint State 1900 Morgan Silver Dollars** that are more than 15 times as rare as 1881-S Morgans of the same grade, yet only sell for twice the price. Please see our flyer for details.

We have also, after searching for almost a year, accumulated enough of the **Gem Mint State-65 1936 Cleveland Commemorative Half Dollar**. This coin could almost be called the **1937 Michigan Centennial Half Dollar** because it boldly portrays both peninsulas on the reverse and half of the coins were actually struck in 1937, a hundred years after Michigan statehood. With a price that is 90% below its past peak, you can see why collectors love Classic Silver Commemoratives such as this. Please refer to our offering.

We also managed to come up with a small group of a most unusual coin—**Siamese Silver Bullet Money.** These coins were made from oblong planchets that were folded almost into a ball shape. We have pieces from the 1700s and 1800s at affordable prices.

Gold and Gold Coins

Gold finished today at $322.25, up $4.75 (1.5%) from four weeks ago. Like silver and platinum, gold traded in a very narrow range over the past month.

As with silver, I believe we are in the quiet before the storm of higher prices. Savvy investors can maximize profits by making acquisitions now instead of waiting for gold to break over $330. Once gold breeches the $330 level, we could be off to the races.

Premiums on the major gold coins were steady. The low price leaders are still the U.S. **American Arts Medallion** (2.8%), Austria **100 Corona** (2.9%), and South Africa **Krugerrand** (3.0%).

Among smaller gold coins, premiums have not risen yet, but I wouldn't be surprised to see them climb in the next month or so. The low premium leader is still the British **Sovereign** (6.1%). Supplies of other lower premium European gold coins like the Swiss **20 Franc** (7.6%) and the France **20 Franc Rooster** (7.6%) are feast or famine. The tightening of supplies are related to the rise of the Euro versus the dollar, where European sellers can now get higher relative prices in Europe than they can shipping such coins to America.

A number of circulated **Common-Date U.S. $10 and $20 Gold Coins** are still being shipped back to Europe, again because of the falling value of the dollar! However, the pressure (and premium) has lessened on the $20s, while it has climbed for the $10 Liberties. Other Common-Date U.S. Gold Coins have held relatively steady.

Better-Date U.S. Gold Coins is hot. Collectors scramble after them. They are almost impossible to find. But we managed to come up with a lovely group of **Mint State-61 1877-S $20.00 Liberties.** We rarely have Mint State U.S. Gold Coins dated before 1880. Take advantage of this opportunity while you can. Please refer to our flyer.

The Month

Gold Range	$7.75	2.4%
Net Change	+4.75	
Silver Range	.17	3.8%
Net Change	+.09	
Gold/Silver Ratio	70.7	
Net change	-0.3	
Platinum Range	13.00	2.2%
Net Change	+11.00	
Platinum/Gold Ratio	1.84	

Date	Gold	Silver	Platinum
Nov 06	317.50	4.47	581.00
Nov 07	320.50	4.54	584.00
Nov 08	321.25	4.53	582.00
Nov 11	closed		
Nov 12	324.50	4.59	579.00
Nov 13	318.50	4.55	585.00
Nov 14	318.00	4.55	586.00
Nov 15	320.75	4.57	598.00
Nov 18	319.25	4.53	598.00
Nov 19	318.50	4.55	592.00
Nov 20	317.50	4.53	587.00
Nov 21	317.50	4.46	589.00
Nov 22	320.75	4.53	590.00
Nov 25	318.00	4.47	585.00
Nov 26	316.75	4.42	582.00
Nov 27	317.75	4.43	585.00
Nov 28	closed		
Nov 29	closed		
Dec 02	317.50	4.42	587.00
Dec 03	320.25	4.53	588.00
Dec 04	322.25	4.56	592.00

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

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

A Holiday Wish

The great news is that we have been quite busy buying and selling coins with our customers lately. The not so good news is that we have been quite busy buying and selling coins with our customers lately.

It has been our practice in the past to send out Christmas cards or holiday letters in the past to thank you, the best customers in the world, for your patronage. It is our privilege to serve you. I am humbled by the compliments you pass along.

I have personally signed every card and letter that has ever been sent—because serving you is personal with us. We just cannot see sending out a machine-signed card in an envelope with a printed label and a meter imprint.

We have had a good year here at LCS, but that has also led to a backlog of customer requests to catch up on. It was a tough decision, but we will not be sending out individual cards or letters this year to give us time to reduce our backlog.

As we do every year, we wish you a holiday season filled with health and the wealth of family and friends. May you be rich in the good things on which you cannot put price tags.

Merry Christmas
Happy New Year

Ruth, Fred, Pam, David, Charlie, Barb, Paul, Tom, Allan, Pat

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