

Liberty's Outlook

Volume 16 Issue 7 Liberty Coin Service's Monthly Review of Precious Metals and Numismatics June 28, 2010

Is A Run On COMEX Silver Inventories Now Underway?

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On June 16th, the COMEX reported total silver inventories of 119.5 million ounces. Nine trading days later, on June 29, total inventories had fallen to 114.05 million ounces, a 5.45 million ounce decline (4.6%).

On June 24th, the COMEX silver market had over 132,000 open contracts. At 5,000 ounces per contract, that means that commodity contract sellers owed a total or more than 660 million ounces of silver at contract maturity. The COMEX bonded warehouse inventories cover barely 17% of all silver owed.

Now, most COMEX contract buyers never ask for physical delivery. In practice, a typical buyer will sell his or her contracts before maturity or will roll them over for new contracts with a delivery date further in the future.

Still, there have been a growing number of reports of delays in delivering physical silver when owners have requested it. Further, the number of maturing COMEX silver contracts where the owner asks for physical delivery is running far above the same period for 2009. So, there is reason to worry about the ability of the COMEX to meet continuing demand for physical delivery.

If withdrawals continue at the current pace, COMEX warehouses could be empty within seven months! Long before that happened, I would expect COMEX rule changes to limit or prohibit taking delivery. Existing COMEX rules would also be used which allow for settlement of contracts with cash or with shares of a silver exchange traded fund in lieu of providing physical metal.

The main reason to worry about this run on COMEX silver inventories is that there are no significant quantities of physical silver held by governments, central banks, or in the private sector that could be mobilized to stem a panic. Equally

2010 Year To Date Results

as of June 28, 2010

Precious Metals

Palladium	+15.4%
Gold	+13.1%
Silver	+11.0%
Platinum	+6.7%

Numismatics

US MS-65 Morgan Dollar, Pre-1921	+0.0%
US MS-63 \$20 St Gaudens	-6.8%
US MS-63 \$20 Liberty	-18.5%

US Dollar vs Foreign Currencies

Euro	+16.6%
Great Britain Pound	+7.0%
Switzerland Franc	+5.0%
South Korea Won	+3.2%
Australia Dollar	+3.0%
New Zealand Dollar	+2.3%
South Africa Rand	+2.3%
Brazil Real	+2.1%
Hong Kong Dollar	+0.4%
China Yuan	-0.4%
India Rupee	-0.6%
Singapore Dollar	-1.3%
Canada Dollar	-1.5%

Mexico Peso	-2.7%
Japan Yen	-4.0%
U.S. Dollar Index	85.652 +10.0%

US And World Stock Market Indices

Frankfurt Xetra DAX	+3.4%
Russell 2000	+2.6%
NASDAQ	-2.1%
Dow Jones Industrial Avg	-2.8%
S&P 500	-3.6%
London FT 100	-6.3%
Sao Paulo Bovespa	-6.4%
Nikkei 225	-8.1%
Dow Jones World (excluding US)	-8.3%
Australia S&P/ASX 200	-10.0%
Shanghai Composite	-22.6%
10 Year US Treasury Note interest rate	3.032% -20.9%

Intrinsic Metal Value Of U.S. Coins

Lincoln cent 1959-1982	2.04¢
Lincoln cent 1982-date	0.49¢
Jefferson nickel non-silver	5.07¢
Roosevelt dime, 1965-date	2.30¢
Washington quarter, 1965-date	5.75¢
Kennedy half dollar, 1971-date	11.51¢

important, any run on the COMEX silver market would certainly expand to a run on COMEX gold contracts. As physical demand for gold increased, that would inevitably lead to higher gold prices, thereby hurting the value of the US dollar.

COMEX inventories fluctuate, so any declines are not automatically an indicator of a run on silver. Still, the withdrawals on all but one of the nine trading days from June 16 through June 29 have been significant. When you put this trend in the context of already existing concerns over the ability of the COMEX to deliver physical silver, **I fear this COMEX silver market problem could come to a head before the end of July.** Any supply squeeze would

result in soaring silver prices.

If you own any forms of what I call paper silver, you now face a higher risk of losing some or all of your investment. I urge you to strongly consider getting out of these positions (commodity and options contracts, shares of exchange traded funds, unallocated accounts in storage, and certificates of stored silver) within the next two weeks and replacing them with delivery of physical silver. My writings are not so widely studied that they would likely hasten the breakdown of the COMEX silver market. But, even if there is no commercial signal failure by late July, there remains a good possibility it could still happen later. **You don't want to try to take possession of your silver after**

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it has all been distributed to the other parties who also have claims against the same inventories.

If you prepare now by converting your holdings into physical silver, you will be ready for any eventuality.

Federal Reserve Breaks Bad News To The Public

The Federal Reserve Open Market Committee is composed of the seven members of the Federal Reserve Board, the president of the Federal Reserve Bank of New York, and four other presidents of regional Federal Reserve Banks. This committee meets eight times a year to oversee America's open market operations. It makes the key decisions about interest rates and the growth of the US money supply. The FOMC, as it is called, is the principal agency implementing US national monetary policy. With the US Treasury, it formulates policy for the exchange value of the US dollar.

At the end of each meeting, this committee issues a statement assessing the current US economy. Every committee member, and the other participants who were consulted during the meeting, are required to sign off on the accuracy of the meeting minutes and on the final statement. Literally, every word is carefully chosen for the statement. As a result, market watchers hang on every word in the statement, especially to any text that varies from the statement issued at the end of the previous meeting.

At their latest two-day meeting that ended on June 23, the Committee issued their summary statement that began as follows: "Information received since the Federal Open Market Committee met in April suggests that the economic recovery is proceeding and that the labor market is improving gradually. Household spending is increasing but remains constrained by high unemployment, modest income growth, lower housing wealth, and tight credit." Later in the statement, it reads, "Financial conditions have become less supportive of economic growth on balance, largely reflecting developments abroad."

Perhaps the most significant word in the whole statement was the use of the word "proceeding" to describe the economic recovery. In the April meeting statement, the committee used the phrase, "economic activity has continued to strengthen." Eliminating this phrase constitutes a huge confession

by the FOMC. In plain English, what they are saying is that the economy has stopped improving, the housing market is tanking, and unemployment is rising. After all, the Census Bureau discharged 243,000 workers in June, with many more to lose their jobs in the coming months. Contrary to the mainstream media reports that the recovery is underway, the unvarnished language in the Federal Open Market Committee statement says the exact opposite. You have now been warned by the Federal Reserve to take steps to protect yourself.

The G-8 and G-20 meetings over this past weekend to address international financial problems were basically failures because they were all talk with no real actions. In particular, US President Obama came away from the conferences with poor results, as the adopted recommendations of the meetings advocated fiscal restraint and cut backs in government spending (positions especially promoted by Germany and the United Kingdom).

The reason that I expect no substantive actions to result from these meetings is partly from the reaction already demonstrated by unionized government employees in nations that are trying to cut back on expenses such as in Greece, Spain, France, and many US states and municipalities. I doubt there are many politicians with strong enough backbones to withstand the pressures brought by those seeking to maintain their share of government largesse.

Just this past week, it was considered extraordinary news that the US Congress failed to enact an additional extension to unemployment benefits (after having enacted prior extensions multiple times), at a time when fiscal restraint would instead indicate repealing past benefit extensions.

Discerning the truth from what the politicians and bureaucrats are saying appears to be so difficult that many in the mainstream media are unable or maybe too lazy to figure it out. Individuals who have taken the time and effort required to do so have reaped huge profits from owning gold and silver for the past decade.

Have Gold And Silver Prices Peaked?

A number of uninformed commentators are now predicting that the gold and silver markets are at their peaks. If they really understood what has happened in the past, what is occurring now, and what will likely come in the near future, they would advocate the complete opposite.

For instance, even though the price of gold settled at an all-time high in US markets at \$1,257.25 on June 18, and the London PM fix yesterday set a record at \$1,260.00, these really

Summary Of Current LCS Recommendations For Precious Metals and Rare Coins

How much of your total net worth should be allocated to precious metals and rare coins?

	<u>Conservative</u>	<u>Moderate</u>	<u>Aggressive</u>
	10%	20%	25-33%

*How much to allocate for each category of precious metals and rare coins?**

	<u>Conservative</u>	<u>Moderate</u>	<u>Aggressive</u>
Gold	40%	35%	25%
Silver	60%	55%	50%
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 conservative we have omitted them from our allocation.

are not record highs. If you factor in the inflation that has occurred since gold reached about \$850 and silver \$50 in January 1980, prices are now a long way from record territory.

Depending on who is doing the figuring, the price of gold today would have to reach at least \$2,300, with some claiming that the price would have to surpass \$7,000 to have the same economic effect as the January 1980 peak. For silver, the spot price would have to be near \$100 to more than \$250 to effectively represent a new record high.

I agree with my friend, silver market commentator David Morgan, when he says that **the easy money has been made with gold and silver already, but the big money is yet to be made.** For your own financial well-being, make sure to establish your position of physical gold and silver sooner rather than later.

Finding The Best Values In US Gold Type Coins Today

Once again, I have updated another analysis in my search to uncover the coins that have the strongest appreciation potential. This time, I analyzed the twelve most popular US Gold Type Coins in grades MS-62 through MS-65.

For a full explanation of the methodology used to derive the Undervaluation Index™, please refer to the May 2010 issue of *Liberty's Outlook*.

Unlike the analyses for the Morgan and Peace Dollars and the \$20.00 St Gaudens series, the results of the Type Gold Coins analyses need to be tempered by two unique influences.

First, the results of this analysis are dis-

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torted by the impact of much higher gold prices in the three years since my original analysis. Obviously, the prices of the larger coins have been rising by a greater percentage simply because the value of the gold content has roughly doubled. As a result of the higher gold price, the Undervaluation Index™ for the larger coins is relatively lower and it is higher for the smaller coins, especially the \$1.00 gold issues.

Still, the results are not off by magnitudes other than perhaps for the \$1.00 gold coins.

The other factor to consider is that demand for the gold dollars is a tiny fraction of collector interest in the \$2.50 through \$20.00 denominations. While I do consider the \$1.00 gold issues to represent good value, I don't consider them to be as out-of-line as the relative Undervaluation Index™ indicates.

To acquire the best values today, I would recommend those types and grades of \$2.50 through \$20.00 denominations where the respective Index™ is above 100 or very close to 100. That list includes the \$2.50 Liberty in MS-63 and -64 grades, the \$5.00 Liberty in MS-63 and -64 quality, \$5.00 Indians in MS-63 and -64 condition, and the \$10.00 Liberty graded MS-64.

Actually, as you can see, there are no coins I would not recommend other than most \$20.00 Double Eagles. The reason for that is that prices for the \$1.00 through \$10.00 denominations are still

mostly a small percentage of what they were at the last major rare coin market peak in June 1989. On the other hand, over the past seven months, Double Eagles have reached record levels, largely influenced by higher gold prices.

Consequently, I think it could be a lot of fun collecting a type set of these popular US Gold Type Coins, whether or not you include the Double Eagles.

A couple of weeks before this analysis was updated, I had the extraordinary fortune to hand-select some of the nicest **Better-Date Very Choice Mint State-64 \$5.00 Liberties**. I did not know then that they would come out with the highest potential for appreciation among the \$2.50 through \$20.00 denominations—across all four grades. In the 2007 analysis, the MS-64 \$2.50 Liberty had the highest rating among these denominations, but has now slipped to second place. Please see our enclosed flyer for details.

Silver and Silver Coins

Silver settled today at \$18.59, up 29 cents (1.6%) from four weeks ago.

This relatively small net change disguises the extreme volatility of this past month. Even the daily COMEX closes ranged more than 10% from high to low. During intraday COMEX trading, silver hit a low just above \$17.00 and a high very close to \$20.00!

Scotia Bank and HSBC, two major banks with significant precious metals depositories (including for the COMEX), are perceived as being the institutions hit hardest with COMEX silver withdrawals. On one day in mid-June, one bank had a net withdrawal of

630,000 ounces all by itself. That same day, Scotia Bank received 610,000 ounces of silver into its COMEX bonded warehouses, which almost certainly came direct from the other bank.

There are rumors galore with respect to Scotia Bank, claiming that this particular bank is far short of having the physical gold and silver in its vaults that it claims to be storing for customers. This is the reason credited for the significant withdrawals from Scotia in the past month or so. Scotia's nervous customers are trying to get their hands on their stored gold and silver while they still can.

The overwhelming direction of retail action at LCS has come from the buyers. Relatively little silver or

gold is being liquidated. Despite the strong demand for both physical gold and silver, most product is still readily available. We have heard of some other national dealers who have sometimes had to decline orders because they were unable to find product on the wholesale market, but that has not happened to LCS—yet.

Because of ready supplies, physical silver premiums are pretty much stable if not actual slightly lower in the past month.

The form of physical silver I most recommend is **US 90% Silver Coin** (4.7%). It is the most widely traded form of physical silver, has the greatest divisibility (one dime contains about 1/14th of an ounce of silver), and is the most liquid. I anticipate, should the US dollar fail as a medium of exchange, that 90% Coin will become the most popular replacement.

Premiums for **US 40% Silver Coin** (3.6%) and the **US Silver Eagle Dollar** (12.1%) have dropped in the past few weeks. Although the cost per ounce of silver makes 40% Coin an attractive alternative, the extra storage required for the 60% copper-nickel content and higher postage costs if it needs to be shipped are significant drawbacks. As for the Silver Eagle Dollars, there really isn't any good reason to pay an extra 7% for the same silver content when the odds are that you will be paid close to the same price per ounce if you go to sell it years from now.

Premiums for **100, 10, and 1 Ounce Ingots** (5.1-7.0%) are stable. In my judgment, they represent a better value than the Silver Eagle Dollars, though not as attractive as 90% Coin.

Our offerings the past two months of **Better-Date High Grade Morgan Silver Dollars** have been exceptionally popular. Dealers across the country tell us they are also experiencing strong demand for the gamut of Morgan and Peace Dollars, from junk quality to ultra-high grade beauties, making it all that more difficult for us to come up with more coins for customers.

LCS Chief Numismatist Allan Beegle uncovered a mini-hoard of these desirable coins. They had been quietly accumulated by a Midwest dealer friend who also appreciated the attractive value of such rarities. Allan persuaded our friend to part with his holdings, which we are able to offer this month. If you tried to place orders in the past two months, but found the coins sold out before you reached us, you have another opportunity. See our enclosed offer for details.

Gold And Gold Coins

Gold finished today at \$1,242.00, up \$21.50 (1.8%) from the beginning of

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Best Values In US Gold Type Coins Today

Date	Undervaluation Index™			
	MS-62	MS-63	MS-64	MS-65
\$1.00 Liberty, Type 1	800.79	1,263.00	915.09	485.04
\$1.00 Indian, Type 2	435.36	336.05	Not meaningful	
\$1.00 Indian Type 3	426.22	564.73	399.91	182.60
\$2.50 Liberty	87.20	133.12	174.89	103.35
\$2.50 Indian	40.08	61.99	73.53	102.94
\$3.00 Indian	93.97	110.59	88.85	Not mngfl
\$5.00 Liberty	41.10	137.73	192.69	158.90
\$5.00 Indian	65.35	99.73	136.33	66.08
\$10.00 Liberty	13.89	50.98	117.32	93.89
\$10.00 Indian	11.12	38.13	72.94	71.01
\$20.00 Liberty	1.10	2.43	8.23	31.30
\$20.00 St Gaudens	0.42	0.60	1.03	2.22

Coins with an Undervaluation Index™ of 6.00-9.99 are Recommended. Coins with an Undervaluation Index™ of 10.00-19.99 merit a High Recommendation. Coins with an Undervaluation Index™ of 20.00 or higher are given the Highest Recommendation for potential future appreciation. Coins with an Undervaluation Index™ of 20 or higher that catalog in *Coin Values* for no more than \$2,500 are highlighted in **bold** above. It may be possible to acquire some coins for less than current catalog value, while others may not be available except at prices higher than catalog value. See detailed discussion in The May 2010 issue of this newsletter for explanation of the Undervaluation Index™ and its limitations.

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June.

Like silver, this relatively small net rise masked extreme volatility during several days of the month. It was not unusual for the price of gold to drop \$20-30 in less than a half hour several times right when it was extremely advantageous to the US government for this to occur.

Unfortunately for the US government and its trading partners, demand for physical gold has been so strong that these major dips have largely been overcome within a few hours or a couple of days at the longest.

The price of gold is effectively a report card on the strength of the US dollar, US government, and US economy. As a result, the US government has a huge incentive to make sure that gold's price does not soar.

Last week was one where there were five significant reasons for the US government to want to suppress gold prices. First, Saudi Arabia's central bank revealed that gold reserves had more than doubled since the first quarter of 2008. This increase may represent more of a reclassification of gold already owned by Saudi sovereign funds, but this merely highlights the probability that central banks and governments are purchasing more gold than they are acknowledging.

Second, two weekends ago China announced that it would allow its currency to be more flexible. The implication of this is that the Chinese yuan will rise against the US dollar. As the US dollar sinks, the price of gold will rise.

Third, the Federal Open Market Committee meeting is a time when the US government wants to appear competent at what it is doing. It just would not do for the price of gold to rise in conjunction with this meeting.

Fourth, the monthly COMEX silver options expired last Thursday. Should the price of silver be high at the COMEX close that day, a larger than normal number of call options will be exercised for immediate delivery, putting further strain on limited physical inventories.

Last, the G-8 and G-20 Group of Nations meetings were held in Toronto this past weekend. It just would not look good US President Obama for the price of gold to reach new record levels going into this meeting. Now that we know that the meetings failed, the US government has already been forced early this week to engage in blatant gold and silver price manipulation to try to hold down prices.

This heightened volatility is a key sign that my prediction in the last issue to expect

The Month

Gold Range	49.00	4.0%
Net Change	+21.50	
Silver Range	1.89	10.3%
Net Change	+0.29	
Gold/Silver Ratio	66.8	
Net change	+0.1	
Platinum Range	76.00	4.9%
Net Change	+5.00	
Platinum/Gold Ratio	1.25	

Date	Gold	Silver	Platinum
Jun 02	1,220.50	18.30	1,550.00
Jun 03	1,208.25	17.92	1,543.00
Jun 04	1,216.25	17.29	1,525.00
Jun 07	1,239.25	18.15	1,517.00
Jun 08	1,244.00	18.47	1,529.00
Jun 09	1,228.50	18.18	1,534.00
Jun 10	1,220.75	18.34	1,536.00
Jun 11	1,229.00	18.22	1,535.00
Jun 14	1,223.25	18.40	1,563.00
Jun 15	1,233.25	18.57	1,578.00
Jun 16	1,229.25	18.43	1,568.00
Jun 17	1,247.50	18.77	1,572.00
Jun 18	1,257.25	19.18	1,587.00
Jun 21	1,239.75	18.80	1,590.00
Jun 22	1,240.00	18.90	1,593.00
Jun 23	1,234.00	18.45	1,567.00
Jun 24	1,245.50	18.73	1,568.00
Jun 25	1,255.75	19.11	1,575.00
Jun 28	1,238.25	18.67	1,570.00
Jun 29	1,242.00	18.59	1,555.00

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.

a significant price rise by the end of July is right on target so far. Even if it turns out to be slightly premature (which has occurred to my short-term forecasts several times), the rise in prices seems all but certain to me.

Although this has not yet showed up in higher premiums for physical gold, demand has been torrid. Still, supplies of almost all physical forms are mostly readily available. The US Mint has even released the first supplies of 2010-dated Fractional Gold Eagles.

Last month I opined that soaring demand for Sovereigns in Europe, especially in the United Kingdom and Greece, would drive up premiums enough where Sovereign owners might be able to swap the coins in for other lower premium issues, increasing their gold holdings without spending any funds. That has not happened and I no longer expect it to

occur.

The disparity between American and European markets was so wide that US wholesalers widened their buy/sell spreads for Sovereigns. A number of Sovereigns have been liquidated in the past month to take advantage of the somewhat higher spot prices and relative premiums, making any higher premiums less likely. I do not recommend purchasing Sovereigns now, at their higher than normal current premiums, because I now expect premiums to decline by the end of 2010.

The low premium forms I do recommend are the US **American Arts Medallions** (3.8%), Austria **100 Coronas** (3.8%), and Mexico **50 Peso** (3.9%). Over time, I expect the higher premium coins such as the American **Eagle** (5.8%), Canada **Maple Leaf** (5.1%), South Africa **Krugerrand** (5.4%), and Austria **Philharmonic** (5.8%) will trade at the same premiums as the lower cost alternatives, so don't pay extra for them now.

Classic US Gold Coins have been a mixed bag this past month. The Double Eagles have declined in price, despite the higher gold spot prices. Smaller denomination coins have been a mixture of increases and decreases.

Demand for older European gold coins remains strong. Virtually nothing is available. What can be found is at premiums higher than in recent months. We were lucky to pick up a quantity of **Mint State-60+ Denmark Gold 20 Kroner** from another dealer. We offer them in LCS Senior Numismatist Tom Coulson's *Notes From Liberty* on this month's Quotes Page.

Consumer Protection Article

My June 16 column that appeared at <http://www.coinupdate.com> is titled "Thinking of Selling Your Gold Jewelry? Watch Out for Gold Buying Tricks and Scams." On that website, it can be found by clicking on Patrick A. Heller under the authors list at the bottom of the home page.

This article lists 14 tips that someone contemplating selling their gold jewelry can use to avoid dealing with those who pay less than other companies. At the end of the article is a chart that can be used to calculate a minimum acceptable buy price, no matter whether the buyer is quoting prices by gram, pennyweight, or troy ounce.

The release of this essay has generated substantial response, including newspaper, television, and radio interviews for me. If you or someone you know is considering the sale of gold or silver jewelry, reading this article ahead of time could help put significantly more money in your pocket.