What Color are Your Assets?

An Insider's Guide to Rare Coins and Precious Metals

by

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Introduction

The arena of hard assets, which includes rare coins, gold, silver and other precious metals, has a long and storied history, dating back to before Biblical times, through the Greek and Roman classical era, the Middle Ages, the Renaissance, the Industrial Revolution and now the Information Age.

It is a story that continues today because in our complex society of worldwide computer-aided markets — trading everything from stocks and bonds to currencies, commodities and every other type of good or service — the subject of money remains as basic to our survival as food and shelter.

For many the subject brings up a wide variety of questions. The aim of this book is to explore the circumstances behind those questions and provide a common sense approach of how to successfully navigate the hard asset marketplace. Below is a sampling of the frequently asked questions this book addresses, information useful to the active collector and investor as well as the beginner:

- Why buy gold, silver or rare coins?
- How does the economy affect rare coins and precious metals?
- Are rare coins a good investment?
- Which coins will make the most money?
- What are the risks of owning hard assets?

- What are the best ways to work with a dealer?
- What do I do with my inherited coins?
- What are the best ways to buy and sell?
- Do I need to take physical possession?
- Is silver a better investment than gold?
- How do I avoid being ripped off, either by thieves or by dealers?
- What role do collectors play in all this?
- Will coins make me more money than stocks?
- How do I buy and sell without a dealer?
- Should I buy silver coins or silver bars?
- How do I know which hard assets are best for me?
- Should I get my coins professionally certified?
- Is the dollar going to collapse?
- What are *price spreads* and how are they used?
- How do I know if I'm buying and selling at fair prices?
- What is the long-term outlook?
- What should I know about storing coins safely?
- Where do I get good information about hard assets?

You will also learn how gold, silver and rare coins function as monetary instruments, what has sparked the recent dramatic bull market in the precious metals, and ultimately the basic framework from which to harness the hard asset market to your maximum benefit.

Overview

Gold, Silver and Rare Coins: The Economics that Drive these Markets

Gold, silver and rare coins may be the subject of this book, but in a very real sense it is all about money. At its core, money is a vehicle of trade and a storehouse of value. Gold, silver and rare coins are also vehicles of trade and storehouses of value. They don't do anything else. And yet, people have lost a great deal of money — and missed out on excellent value enhancing opportunities — because this simple fact was ignored, and because they ascribed properties to rare coins and precious metals which simply are inaccurate.

Let's clear up the confusion.

The first is the belief that one gets wealthy by accumulating money. That is backward thinking. The fact is that one gets wealthy by creating value. Money is only the means of storing the value that has been produced.

The second confusion is mistaking money for investment. Again, this notion is backward. Money — including gold, silver and collectible coins — is not an investment. An investment is something that produces value. If one owns a piece of property and rents it out to get income, owns a share of an enterprise (stock) from which he hopes to profit, or loans money at a fixed rate or return (interest bearing account), he or she has an investment. Gold, silver and rare coins are not investments because they do not produce anything at all let alone anything of value. All they do is store value. In effect, they are savings accounts that generate no interest.

Precisely because they are savings vehicles that store value, gold, silver and rare coins are superb vehicles for trade. The venues in which they are exchanged are called *markets*. At its most basic level, what drives these markets is Economics 101, or to put it another way: supply and demand.

Supply and Demand of Rare Coins and Precious Metals

The supply and demand dynamic works differently for rare coins and precious metals than for most other products. For example, with products like bottled water or paper clips, and almost all consumer items, materials and manufacturing capabilities are sufficient to satisfy any market demand quickly. No matter how high the demand might rise, the supply can easily be increased; or if demand falls, production will be decreased. Except for short-term fluctuations from imbalances in the supply/demand ratio, the result is that prices tend to remain constant over the long term, with a tendency toward the downside as competition and technology nibble away at the cost of production and distribution.

In other markets, such as food and energy, demand is relatively constant, and therefore price changes are driven mainly by the quantity of available supply. If supply is plentiful, producers will drop the price to drive sales. Conversely, if supply is scarce, producers raise prices to insure the ability to obtain new supplies.

What makes gold and silver different is that supply is limited compared with most other elements. If demand increases beyond supply capabilities, prices will rise because producing additional supply is much more difficult and time consuming than it is for most other products. Eventually, prices increase sufficiently to discourage demand, and encourage the creation of more supply, either from production or from people selling gold and silver back into the market (often taking profit on the price increase) causing the price to drop until supply and demand are equalized. Price is the measure and the regulator of the balance between supply and demand. While shortage of supply in the face of higher demand increases prices, an excess of supply in the face of lowered demand decreases prices.

With rare coins, the potential for price increase is even greater because once coins for a certain year are minted, no more coins of that date and denomination will ever be made, which means that the supply of rare coins is not only limited but finite. The only exception is that each year new coins are minted, but this is a relatively slow process.

Furthermore, once supply has been created, it usually is not destroyed, because as we have noted, hard assets like gold, silver and coins are storehouses of value. Thus, unlike food, energy, paper clips or bottled water, which are completely consumed, the supply of coins, gold and, to a lesser extent silver (which is consumed in some industrial uses), will come back into the market if and when demand increases. In fact, massive selling of already produced hard assets is the only way available supply can be rapidly increased. Therefore, the primary factor determining prices for hard assets is demand.

It is not necessary here to get into particulars of how the values of gold or silver, or specific individual coins are impacted by this, as we will explore that later. The crucial point here is to understand the basic dynamic that rare coin and precious metals prices are driven by demand. To fully comprehend how economic and other factors impact the hard asset markets, our key focus must be on the demand side of the equation.

Demand is determined by the aggregate of the intensity and desire of mass numbers of people. People buy or sell for a wide variety of reasons, not all of them logical. Therefore, to understand the dynamics of what causes people to act, we must delve into the psychology of buyers and sellers, especially as it relates to the aggregate of active traders in the marketplace. It becomes useful to know what causes people to buy and sell rare coins and precious metals. The key to unlocking some insight regarding this phenomenon is the concept of *market intelligence*.

Market Intelligence

Market intelligence is the combined knowledge, experience and intuition of everyone who buys or sells in that market. Market intelligence is much more than a mechanism that determines value through supply and demand: it comprises the assimilation of information resources, and the exchange of vast quantities of knowledge. In many ways, it is analogous to a supercomputer that links together the memory and computing power of thousands of computers to accomplish gargantuan tasks that no individual computer could accomplish on its own.

A *Scientific American* article (August, 2009) reported a study showing that if a significant number of people are asked to guess the number of jellybeans in a large jar, the individual guesses will vary widely but the average guess (totaling all the guesses then dividing by the number of participants) is remarkably and surprisingly accurate. That is not a bad analogy to market intelligence. Naturally, market intelligence does not always come to the best conclusion, and it certainly is not foolproof. At times it can be terribly wrong. It does, however, tend to be naturally self-correcting. And in a large free-market environment like the precious metals enjoy, it can self-correct with amazing speed.

Market intelligence operates in areas where large numbers of people buy certain products, which applies to many areas other than rare coins and precious metals. In selecting a movie to see, people make choices using some combination of available data. Some consult reviews (analysis), others look at top box office draws (trading volume), others want the newest horror, thriller or romantic comedy (market sector), and still others look for the latest work of a certain actor, director or writer (collector). All of this decision-making criteria is part of market intelligence.

Even though the various buyers will see a particular movie for different reasons, the number of people who buy tickets is an indication of the desirability of that overall entertainment product, which will be reflected in its revenue. This is the principal reason movie distributors make such a big deal out of box office grosses — it entices more people to come to the same conclusion. It is also why political operatives strive to spin the results of polls to show that their side is winning. It helps with fundraising and getting supportive voters to the polls. It may even discourage some people from going to the polls if they feel their chosen candidate is destined to lose.

This principle operates in the stock market. As buys and sells are recorded — and prices rise and fall accordingly — traders constantly look for imbalances where the supply (from people who want to sell) has caused the price to drop below the stock's true value, thus creating a profit opportunity. To make this determination, traders will analyze a wide variety of fundamental and technical factors.

The same phenomenon operates every day in the rare coin business. The Certified Coin Exchange, an online trading network for professional dealers, provides a venue where members can offer and request coins of all values, along with some non-coin collectible rarities. CCE also trades every kind of precious metal, in all forms, from sterling and bars to coins and scrap.

In addition to prices being offered, dealers can see how many other dealers are looking for a particular item, and contrast that with how many wish to sell that item. This provides an inside look at the balance between sellers and buyers as well as the *spreads*, which indicate the motivational intensity of buyers and sellers. On occasion, dealer comments provide additional insights. Only a small fraction of all dealers are buying or selling on the exchange at any given time, so the information is by no means complete, but it is an interesting slice of extremely useful, valuable information, or intelligence, about the market. The same dynamic occurs, albeit on a more haphazard basis, at coin shows where a concentrated number of dealers and collectors are present.

Market intelligence, therefore, is the underlying, dominating force behind any price trend. It is the primary factor behind economic bubbles of all kinds, from the boom-and-bust cycle of Dutch tulips in the 1600s to the rise and fall of dot-com tech stocks in the 1990s. More recently, astute market watchers would have noted that real estate prices were handily outpacing income levels, and that banks and other financial institutions were making highly questionable loans in the years preceding the housing market debacle of 2008.

The Collector Mentality

The most significant economic factor impacting the rare coin market, which also impacts the precious metals markets in a limited way, is the collector. Understanding the collector's mentality and how it works is essential to understanding the demand dynamic of hard asset markets.

Most hobbies cause people to divest themselves of money: just ask any scuba diver, golfer or boat owner. The nature of coin collecting, whether rare or not, involves the accumulation of money. While accumulating assets is an economic motivation, economics are not always the primary motivation of collectors. For many collectors, the primary motivation is enjoyment. Collectors are motivated by the desire to own certain objects.

Coins are historical. The images and symbols depicted in their designs reveal intriguing insights into historical events, cultural movements and political philosophy. Coins often display portraits of important historical figures. United States coins provide superb examples. Starting in 1909 and continuing to the present, the U.S. cent has displayed the portrait of Abraham Lincoln. Before that, the cent had a portrait of a Native American chief, as a romantic homage to this era of American history. That same romanticism continued with the Buffalo nickel, and continues today with the $1 one-ounce silver Buffalo and the $50 one-ounce gold Buffalo.

Beginning in 1938, the nickel portrayed Thomas Jefferson. From 1948 to the present, Franklin Roosevelt's profile has been on the dime. Since 1932, George Washington's profile has been on the quarter. Between 1948 and 1963, Benjamin Franklin's portrait was on the half dollar. In more modern times, the dollar bore portraits of Eisenhower, Susan B. Anthony, Native American "princess" Sacagawea, and now all the American presidents. Many coins were designed to commemorate important events such as the Columbian Exposition or the San Francisco World's Fair of 1936, and famous people like George Washington Carver or Booker T. Washington.

The same holds true for bank notes, with George Washington on the $1, Lincoln on the $5, Hamilton on the $10, Jackson on the $20, Grant on the $50 and Franklin on the $100. It is interesting to note that the highest denomination note ever made for U.S. Dollars, the $10,000 bank note, features the picture of someone most of us never heard of: Salmon P. Chase, Secretary of the Treasury 1861-64, and later a Supreme Court Justice. Incidentally, $10,000 bank notes, which were primarily used for funds transfers between banks are now worth more than $30,000 in any condition. That is because of collector demand.

UnitedStates1896SilverCertificates,knownaseducationalbanknotes,issuedin$1, $2and$5denominations,depictneoclassicalimageryontheobverses.Thereverse ofthis$2certificatehonorsinventorsRobertFulton(left)andSamuelMorse(right). ImagecourtesyoftheNationalNumismaticCollectionattheSmithsonianInstitution

In some cases, such as with the educational banknotes — silver certificates issued in denominations of $1, $2 and $5 at the end of