US $5.00

Rare Coin Report

May 2008 Volume 9, Issue 2

MS-65 St. Gaudens The "Ratchet" Effect

Buyers of MS-65 St. Gaudens might be pleasantly surprised to notice that despite the fall in the gold price, "Saints in 5" and MS-64 $20 Liberties have held their price and are trading even higher now than when gold was in the high $900's. A main reason is what I call the "ratchet effect."

The "ratchet effect" occurs when gold price increases push up MS-65 St. Gaudens prices. When gold corrects, "Saints" hold value only to rise further when gold increases again.

This happened frequently in the 1980's, particularly in 1989 when "Saints in 5" hit about nine times the gold price. If that ratio applied today, "Saints in 5" would now be close to $9000, almost five times current value.

Unlike precious metals which trade millions of ounces instantly

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Collector Coins in a Hot Gold Market

The bull market in gold has temporarily focused attention on "investment " grade gold coins. While this attention will last as long as gold continues its likely rise to $1500-2000 over the next 5-10 years, buyers of "collector" coins need not feel left out. Just like the rise in precious metals produces a "ratchet" effect for coins like the MS-65 St. Gaudens, the increasing and continuing demand for precious metals, the weak dollar, and ex-

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"Long term prospects remain unchanged as sub-prime mortgage woes and inflationary pressures beat the dollar lower, a trend certain to continue."

Message From the Owner

CNP first quarter trading volume broke all records as the bull market in coins continues. As the "wild 2008" predicted in February's Rare Coin Report continues to materialize, please remember that volatile times create extraordinary opportunities, where the main challenge is keeping your focus. Toward that end, May's Rare Coin Report will strive to put in context today's events so you can effectively take advantage of those opportunities.

There are important changes virtually everyone should make in response to these conditions, so do yourself a favor and CALL ME now at (800) 334-3325 to discuss what changes make the most sense for you.

— Lawrence Goldberg
Owner of CNP

Rare Coins and the Economy

The stock market remains volatile. Real estate prices continue dropping as the Fed stabilizes interest rates at current levels. Sluggish but positive first quarter growth means no Recession short term. Meanwhile, Fed bailouts and liquidity infusion (some report a trillion dollars first quarter alone!) exacerbate already strong long term inflationary pressures as oil prices spiral upward, spurred by ever increasing global demand and speculation.

Gold slid to under $850 from its $1024 peak (still well above prices a year ago) when the Fed dropped interest rates in March, scaring nervous fund managers into Treasuries, and out of profitable commodities positions.

Long term fundamentals, however, remain unchanged as continued sub-prime mortgage woes and inflationary pressures

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The Mood of the Market (see page 3]

Reasons to Sell Your Coins

- Upgrade your collection trading bulk/common coins for rarities
- You overpaid for coins in the past and need a tax loss
- You have lost interest in coins
- Your age or condition makes collecting/enjoying difficult
- You need cash
- You want to consolidate a "too bulky or heavy" accumulation.
- You have security issues and cannot keep your coins in a safe place.
- You inherited a collection you must sell or split among heirs.
- You want to upgrade to a high grade collection for your heirs.

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"Collector" Coins in a Hot Gold Market (cont')

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ceptionally strong marketing by the US Mint coupled with increasing collector demand will keep the upward pressure on collector coin prices.

In fact, attention on "investment grade" gold often diverts attention away from collector coins, creating excellent opportunities for collectors to pick up coins that might not otherwise be available.

This has been especially useful to buyers of gem quality Morgan and Peace Silver Dollars, pattern coins and collectible bank notes, where demand (and prices) remain stable.

It also opens up a potential opportunity for buyers of rare date gold, which, inexplicably, has remained weak since it fell from grace in the early 1990's.

Typically, rarity prices rise after bullion prices rise, because the rise in bullion prices makes rarities look inexpensive by comparison.

This phenomena mirrors the "ratchet effect" so typical of Investment grade gold, and has the potential to send rarity prices significantly higher in the future, particularly if inflation continues to show up in fuel and food, translating its effects throughout the economy, and could be exceptionally potent after the housing market finally bottoms out and stabilizes.

Gold/Coin Market Ebb and Flow

In volatile markets, it is easy to forget is that everything cycles. What's hot today will be cool tomorrow; what falls today may rise precipitously tomorrow.

For coins, the key is limited supply. When enough supply exists to drop prices, buyers eventually dry up the supply and send prices higher. This is partly why virtually all coin values rise in the long term.

Keeping focused on your long term goals is the best strategy during volatile short term fluctuations. In today's market, this also holds

The "Ratchet Effect" (cont')

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through computerized futures and options markets, $20 gold coins must be traded physically, making a massive sell-off all but impossible. Furthermore, since most "Saints in 5" buyers—including the investment oriented—buy for the long term, they do not sell when gold corrects, but look to take advantage of the lower price to buy more!

This makes MS-65 St. Gaudens especially stable and exceptionally profitable in long term precious metals bull markets like what we now have. The comparative rarity of "Saints in 5" supports this conclusion. Based on the January PCGS and NGC population reports there are only 133,113 common date (1908 no motto, 1924, 1925, 1927, 1928) St. Gaudens in MS-65. That may sound like a lot.

However, if 13,000 people buy only 10 each, the supply can be completely consumed. In surging markets, therefore, supply can evaporate very rapidly. "Saints in 5" are also a staple of dealer to dealer trading,

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Rare Coins and the Economy (cont'd)

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continue to batter the dollar lower, a trend almost certain to continue.

Despite slight weakening of the market for generic gold, coin prices remain stable favoring upside as demands of physical trading combined with the long term outlook of coin buyers mitigates any "selloff" potential. Despite gold price drops investment grade gold (MS-65 St. Gaudens and MS-64 $20 Liberties) retrenched only slightly, and are still selling at higher prices now than when gold was $100/oz higher than today (see "Ratchet Effect" article, pg.1)

So too, rarities are holding their own price wise. Coin collectors more than most realize that any back off in price is little more than a buying opportunity for the long term. Good prices are still being realized in most areas of the coin market, so sellers would do well to sell now rather than wait, as prices could soften more before increasing again.

The "woe is me" press and "crisis mentality" of the presidential election should produce a wide variety of economic "fixes," almost all of which are likely to weaken the dollar further. Prepare for further increases in the gold price as the rest of the market settles out.

true for gold. Long term fundamentals regarding the fall of the dollar and increased world wide demand remain firmly in place. Since no market rises strongly without corrections, the recent gold correction, which still has gold much higher than a year ago is simply that—a short term correction. Look for strong increases in the gold price later this year

$20 St. Gaudens Gold PCGS MS-65

Customized Numismatic Portfolios

Market Condition Overview

With the dollar falling and gold on an upward tilt, the most important thing is to make sure you have enough assets in the coin asset class. By "enough" I mean 5-10% of your investment portfolio.

By far the easiest way to accomplish this is using investment grade "Saints in 5" or "Libs in 4" ($20 Liberty gold coins in MS-64). These coins are especially suited to those who are more investment oriented, and require liquidity.

But, considering that virtually all classes of coins are on the upswing, if quick liquidity is not important and your "window of fruition" is 15 to 20 years or more away, now is also a great time to simply ratchet up your accumulation. This is especially true for Peace and Morgan Dollar collectors, as those coins have remained stable price wise as gold has risen.

Currency remains hot but prices are stable there as well, and particularly for collectors of National Bank Notes and Large Size Type, some relative bargains exist because of the market focus on gold.

The market for Pattern Coins remains spotty, as very thin supplies have temporarily dried up market attention. This will change in time, especially when the upswing in rarities which typically follows upswings in precious metals occurs.

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Look Inside for the Inside Look at Coins!

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The "Ratchet Effect" (cont'd)

and therefore trade virtually every day on internet dealer to dealer trading networks like the Certified Coin Exchange (CNP is a member), which makes them almost as liquid as gold bullion. Usually the only effect of strong buyer demand is a squeeze on supply which pushes up the price.

The ratchet effect has only just now begun to operate. This portends a strong future for prices of "Saints in 5" especially if gold continues to rise as it has historically along with oil and other commodities, and opposite to the fall of the US dollar. Long term prospects are outstanding.

In addition to the tremendous profit potential, the "ratchet effect" also protects against the downside. If either coins or gold continue to rise, "Saints in 5" will rise. If both rise, they will rise dramatically. But for them to fall in price, both coins and gold must fall, and considering today's economic and coin market conditions, this is all but impossible.

For a **FREE** portfolio analysis, specific questions on the direction of the coin market, or to buy or sell coins, please call me, Lawrence Goldberg, toll free at

(800) 334-3325

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