

Gold, Silver Headed for New Records



By David Ganz, Numismatic News
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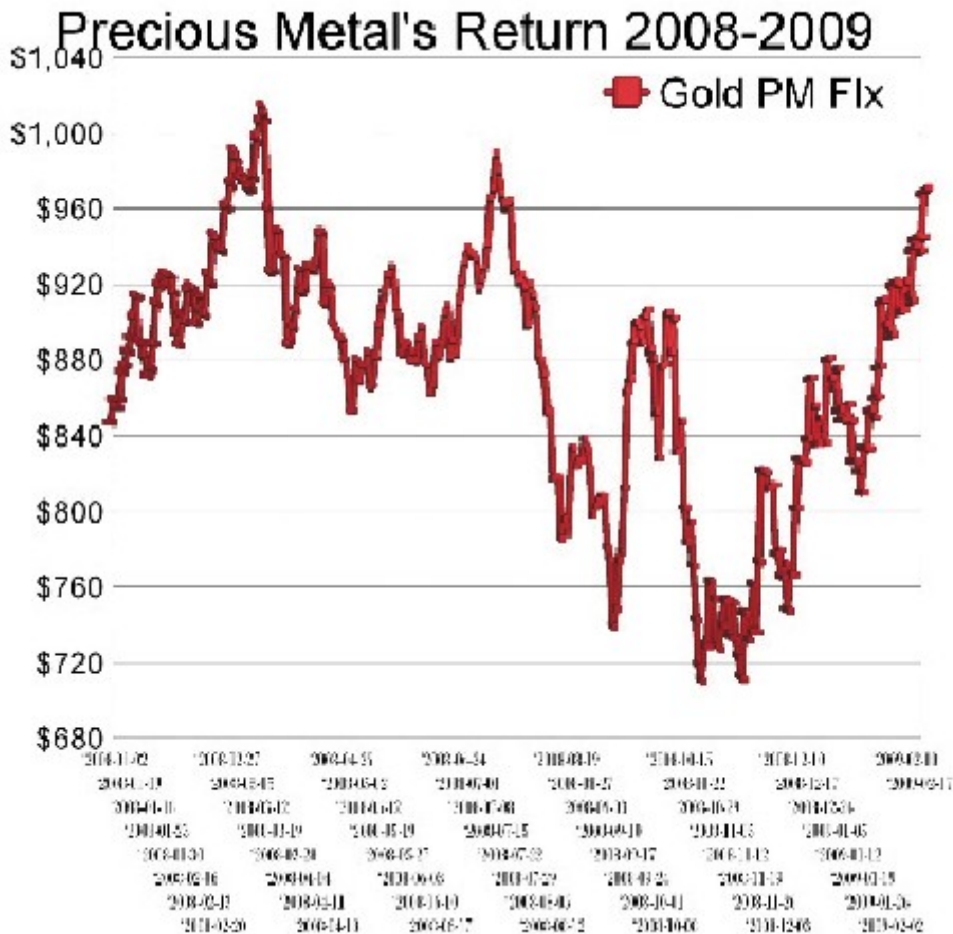
As gold nears the \$1,000 Rubicon yet again, the economic world is topsy-turvy.

The Dow Jones industrial average is in a downward spiral, and fundamental economic laws that we have come to expect simply no longer hold. Some people are beginning to say that the "R" word and the "D" word are not political terms, but rather economic ones.

There is no bright line between a recession and a depression. My father used to say that a recession was when someone that you knew was out of work; a depression was when you were out of work. By the economic standards of the past, today's national economy and the numismatic economy are separating.

We are, in many ways, in an economic tsunami, as devastating to the economic world as anything nature could devise.

Accompanying this column are some charts that were put together with the help of data supplied by Kitco from their Internet presence at www.Kitco.com, covering the period from January 2008 until Feb. 17, 2009. What it shows is that the price of gold and silver is not responding to individual economic events, but to the marketplace as a whole.



Economic events being thrown at us include a trillion dollar economic stimulus package that is over 1,000 pages long and almost impossible to digest. Some of the members of Congress who voted on it didn't even attempt to read it, no less master significant portions of it.

Analysis focuses on President Barrack Obama and his call for action. But the truth is that his experts are guessing and hoping that the path chosen - one of least resistance - helps lead the nation to economic recovery.

But the banks who already have received \$300 billion aren't changing their business model. They won't make questionable loans now because of a fear of catastrophic failure worse than the simple bad loans made on their older economic models.

The numismatic community - hobbyists, investors and serious collectors who are using this climate to plan their rare coin retirement (or who did it before the change in economic climate) - is an oddity. Portions of the numismatic community lives on expenditures of discretionary income.

Significant other portions find that the rare coins that they sell are part of a survival mode that views gold as an asset of last resort. That has moved from pure bullion coins like the U.S. Eagle, the krugerrand, and a host of other coins to more traditional pieces like the Saint-Gaudens double eagle gold piece.

The Feb. 17 issue of Numismatic News is telling. It quotes Feb. 5 gold at \$923 an ounce and the look-alikes show the American Eagle at \$1,029, an 11.48 percent premium over spot; American Arts gold medallions, not a coin but government imprimatured, \$969, a 4.98 percent premium; China Panda 1 ounce, \$1,012, a premium of 9.6 percent; and the Canadian Maple Leaf at \$1,016 with a 10.07 percent premium.

On the NumisMaster.com Web site, slabbed double eagles graded MS-61 and MS-62 are going for \$1,450 to \$1,500 (common dates) the equivalent of buying gold at \$1,498 an ounce or a margin of about 62 percent.

Back in the days when gold ownership was illegal for most Americans unless they had coin rarities, the Bank of Nova Scotia was selling double eagles at a premium of about 18 percent. The coin had \$33.86 worth of gold in it (.9675 troy ounces) and it sold for about \$40 on the fixed price list that on Jan. 13, 1961. By Nov. 25, 1962, the Bank of Nova Scotia was charging \$44.25 for double eagles, a 30.6 percent premium.

The economics of 1970 are worth looking at. Jan. 16, 1970, probably doesn't mean much to American investors today, but it marked the last time that the free market price of gold dipped below the official \$35 price guaranteed by the U.S. government, closing at \$34.75 an ounce.

The economics of the time were significant with bad news as today. That previous Thursday, the U.S. Commerce Department reported that economic growth had come to a virtual halt during the fourth quarter of 1969. The nation had yet to achieve a trillion dollar economy (its Gross National Product was \$953.1 billion, Commerce announced; today of course we have a trillion dollar bail out package).

Significantly, the Gross National Product price index rose less than in any prior year, and White House spokesmen announced that all of these results were part of a Nixon Administration plan to manage solid economic growth without inflation.

Gold's price was officially pegged at \$35 a troy ounce, its level that had been maintained since President Franklin D. Roosevelt effectively nationalized gold and Congress devalued the dollar (by about 59 percent) by raising the price paid for the precious metal from \$20.67 to \$35 per troy ounce.

By the mid-1960s, the economics of the Vietnam controversy were having a profound, if not disastrous effect, on the American economy. In time, it displaced the Great Society under President Lyndon Johnson and caused international economic calamity.

By March 1968, LBJ was forced to renounce a second full term, and nearly simultaneously, set up a two-tiered market for gold based on the official price of \$35 an ounce, and a free market price that was permitted to float somewhat higher.

The price of gold jumped, moving to heights of \$43 an ounce, which caused a sensational ripple in the coin market, because by that time double eagles were trading at a price of about 48 percent above the spot price of gold.

Gold coins were traded and available on a widespread basis, even British sovereigns of the modern era - but if any were made after 1960, they could not be legally imported into the United States without a permit from the Office of Domestic Gold and Silver Operations, whose task was to protect the integrity of the Roosevelt seizure order, while simultaneously allowing rare and unusual coin to be imported.

Eventually, an arbitrary line in the sand was drawn with 1960 as the demarcation point. Minted before that, it was rare and unusual, even if it was a 1958 sovereign with 8.7 million pieces produced; afterwards, it was common, and not importable with a license, even if it was a 1962 sovereign with 3 million pieces manufactured.

As gold faced the real market for the first time following 1968, it was inevitable that economic forces that traditionally had driven the price upward - inflation, war, and economic fears - could, in the converse, drive its price down.

And so it did in the early days of 1970. By Jan. 16, Under Secretary of the Treasury Paul Volcker announced that the new gold agreement signed with South Africa provided "no assured 'floor price' for gold speculators," and with that, the metal dropped to its lowest price in London free trading in 16 years - below the official floor.

In a letter to Rep. Henry Reuss, D-Wis., then chair of an international economic subcommittee, Volcker called the agreement with South Africa "consistent with a two-tiered system" of pricing gold.

A couple of years later, in an exclusive interview with me that was published in Numismatic News, Reuss told me that this marked the real beginning of the drive for private gold ownership, which did not take place until Dec. 31, 1974.

Gold's importance to the overall numismatic market wasn't overlooked in the 1970s and later. Indeed, I often wrote of the parallel that seemed obvious between the way that the price of gold bullion moved and the manner in which the coin market responded.

The events of January 1970 were at once liberating and thought provoking. In a totally free market, gold could rise or fall and without an official price or a floor, as Volcker put it, the metal price could go below an official buy price of the government.

Ironically, within 18 months, inflation would be ravaging the nation, and on Aug. 15, 1971, President Nixon would suspend the dollar's convertibility into gold, slamming

down the gold exchange window, institute wage and price controls, and set the stage for the dramatic rise of gold - and the numismatic market - for decades to come.

Once again the dollar was devalued, raising the official price of gold to \$38 an ounce. (Still later, it would go to its present official price of \$42.22 an ounce).

By 1973, gold regulations were eased slightly, to allow more gold coins minted between 1933 and 1961 to be admitted to the country as a "rare" coin, however, a drive in Congress to reverse the action of four decades before failed when the House failed by a single vote to call for immediate ownership.

By early 1974, President Nixon had gained the legal authority from Congress to allow private gold ownership at any time he felt it is in the best interests of the international economic situation of the United States.

Gold ownership finally came about in one of the most unusual unitings of interest of diverse political elements - the conservative "gold bugs" and the liberal Democrats.

Democrats had a foreign aid package that was in need of passage; the conservative Republican "gold bugs," most of whom had voted against every foreign aid proposal that ever came before Congress saw a truly golden opportunity.

They added a clause to the foreign aid bill that would simultaneously legalize private gold ownership by a day certain, but also retroactively repeal all of the regulations and laws that impeded holding the precious metal.

The unusual political coalition held together, the foreign aid bill became law, and on Dec. 31, 1974, private gold ownership was again permissible for the first time in 40 years. Gold's historic role once again moved to preeminence.

Gold's price rose in the 1979-80 commodity surge to \$800 an ounce, but then relented. Gold coin prices for common typical uncirculated pieces closely mirrored the bullion price, with a modest numismatic surcharge.

Charting the coins over an extended period of time shows that they still make a valid investment as well as an inflation hedge - better in fact than bullion.

Today, people buy gold, invest in it - and hold gold coins - without giving the metal a second thought. The international monetary system did not fall apart with private gold ownership, and neither did the American economy - at least not until the second George Bush Administration in 2008.

What was ultimately shown is that those who held onto rare coins - rare gold coins - were richly rewarded. The question for 2009 is whether the economy has sunk so low as to bring about a new call for gold seizure. If it does, what will they seize? Will the past be a precedent or will it by step the issue and spawn years of litigation. Only time will tell.