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Wall Street, New York

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THE GOLDEN SMIRK By Tom Dyson

Nothing makes a bank teller smirk like the sight of a sweaty man at her window, draining his bank account.

"You in a hurry?" asked the petite twenty-something.

We were in Bank of America. Your Baltimore-based editor had just requested $7,500 in cash from the girl.

It had taken us nearly a year to save. Money can make a man sweat, especially if it is his last...but on this occasion, a brisk 10-block walk through a bad neighborhood was to blame. The teller had noticed.

"I'm going to a coin show and I'm buying gold coins," we answered, wiping the brow with a sleeve. "I gotta get back there before all the best ones are taken!"

She didn't seem too impressed – after all, she could see our new bank balance – and passed the wad of one hundred dollar bills under the glass partition in an envelope. "Next customer please..."

Officially, the Rude Awakening was in Long Beach to report back from the second annual "Gold Summit," a convention of gold coin and numismatic experts assembled by Stansberry Research. Unofficially, we came to buy gold coins. It would be the perfect chance, as, for the rest of the week, Long Beach Convention Center would be hosting the world's largest gold coin expo.

Walking around with $7,500 in your pocket is unwise. But in Long Beach – rap star Snoop Doggy Dogg hails from here – it's a particularly bad idea. No matter, our chosen gold coin vendor would not accept credit cards. Margins on gold coins are so thin, he explained, that the small processing fee a vendor must pay to accept credit cards makes gold coin transactions uneconomical.

Nor were there any taxis around. So we marched, at pace, all the way back to the convention center.

"Do you want to know the secret way to get really rich investing in gold coins?" coin expert David Hall had asked the assembly on Wednesday. "Don't listen to tips...especially if they come from me!"

Hall, also known as 'The Encyclopedia,' had just tipped five rare coins set to soar in price. The crowd laughed.

David Hall knows what he's talking about...nearly 25 years ago he set up PCGS, one of the top two coin grading services in the world. "I've seen it time and time again...you cannot make fast money in coins by trying to make money fast. And that is the secret...buy what you like, not what you think will go up. That way, you'll have no problems holding onto your coins for the next twenty years."

Hall had just expressed the sentiment we found so pervasive at the New York Numismatic Convention we attended in January. Approach these coins as a collector, not as a trader looking for profits, we had been advised then. "95% of the guys you'll see buying coins at the expo tomorrow," Hall reassured, "will be collectors. The prices move big when investors and speculators come into the market, like in the late 1980s, but so far that hasn't happened."

At dinner the night before, Porter Stansberry explained his interest in coins. "If I get fired from my job, my speculations go horribly wrong, America hits the wall, my house burns down, and my bank gets targeted by cyber-gangs, I'll still have my gold coins and an opportunity for a fresh start. It's insurance...and right now, insurance has never been cheaper."

Choosing a suitable coin was the next step. It has to be rare, said Burt Blumert, owner of Camino Coin, but not that rare you can't buy it and sell it easily. Some coins – like MS-65 $10 Libertys – have populations less than 3,000. A coin this rare commands a premium as high as 10-times the melt value of the gold it's made from and today sells for around $5,000. On July 1, 1989, the peak of the last hot coin market, this coin sold for $15,000. A nice investment grade coin for sure, but a little out of our league in terms of price. We went for the highly liquid, but otherwise similar MS-65 $20 Saint instead. They cost us $1,250 apiece and we bought five.

Other coins maybe far more common and in worse condition, but should also be considered. We bought 3 banged up $20 Libertys. Each coin contains just less than an ounce of gold, so, at $455 apiece, there's very little premium over the spot price and but far less leverage off a rising gold price.

"Value is the key," said Burt. "No matter how fine the coin, or how badly it's worn, you should always look around before buying. Prices vary greatly and you should only ever buy from someone you trust. Never buy a raw coin either – a coin that hasn't yet been graded by either PCGS of NGC – that's a sure way of getting ripped off."

In ten years, perhaps we'll be the one with the smirk - a golden smirk - but until then, we'll let you know how the coins get on...

Did You Notice...? By Steve Saville

One of the main determinants of the intermediate-term trend for the gold sector of the stock market is the trend in the U.S. yield-spread (the difference between the yields on long-term and short-term Treasury debt).

Specifically, a rising trend in the yield-spread (long-term interest rates trending higher RELATIVE TO shorter-term interest rates) creates a positive backdrop for gold stocks whereas a falling trend in the yield-spread creates a negative backdrop.

The reason this is the case is that a widening yield-spread is often, although not always, a sign of rising inflation expectations because the longer the term of the debt the more the lender must account for inflation risk.

For example, the yield on a 3-month T-Bill is almost totally controlled by the Fed and contains almost no inflation premium whereas the yield on a 30-year T-Bond is strongly influenced by the expected level of inflation, so regardless of what is happening to the absolute levels of interest rates, if the 30-year yield is trending higher relative to the 3-month yield then it is typically a sign that the expected level of inflation is moving higher.

Gold stocks generally do well and the U.S. dollar generally does poorly when U.S. inflation expectations are on the rise, hence the positive correlation between the gold sector and the yield-spread.

Further to the above, one of the main reasons why a lengthy consolidation in the gold sector began in January of last year is the trend reversal in the yield-spread - from up to down - that occurred at around that time. The situation is illustrated on the following chart comparison in which we've used the 30-year yield divided by the 13-week yield to represent the yield-spread and the HUI to represent the gold sector.

In our opinion, the yield-spread is not going to get much narrower because either bond yields will surge or the Fed will have to stop pushing short-term rates higher; so over the next few months a continuing contraction in the yield- spread is probably not going to be a major issue for the gold sector.

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