

Rare Coin Trends and Market Report

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Structuring: Hear No Evil, Speak No Evil, See No Evil

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Did you know:

Since January 2000, **79 telecom firms** have filed for bankruptcy. Among the nation's companies listed on major stock exchange, a total of **116 firms** have already filed for Chapter 11 just this year.

Average American's annual income: \$57,470. Number of days required for average pro baseball player to make that amount: **4**.

With 112 billion barrels of oil, at least according to Oil and Gas Journal, Iraq has the second largest oil reserves in the world. And although you may not be aware of it... **90% of Iraq's oil exports** -- 24.2 million barrels a month -- already go to the United States.

Rare coins are one of the few investments that are still private in the sense that a Social Security or tax identification number is not required in the transaction. There is, however, a major exception to this rule. In the event over \$10,000 is received in cash in related transactions, a Form 8300 must be filed with the IRS, reporting the details of the transaction, including the taxpayer identification number (TIN) of the purchaser.

What if the client asks you if the reporting requirement can be avoided?

The answer to that is NO. Don't even think about helping avoid that process because it's called **"structuring"** and comes complete with severe criminal penalties including imprisonment, heavy fines and major problems with law enforcement agencies, including the NASD and the SEC.

What is structuring specifically? The IRS gave an example in their proposed regulation for comment in 1993. "Example 1. A person has a tacit agreement with a gold dealer to purchase \$36,000 in gold bullion. The reporting requirement of this section cannot be avoided by recasting the single sales transaction into four separate \$9,000 sales transactions."

Structuring is not only the actual transaction but is also the giving of advice of how to avoid reporting requirements. Simply, if a client asks how a transaction of \$10,000 can be negotiated without reporting it to the IRS, any **advice** given to the client on how to accomplish this is also structuring. As a further example, if you advise a client that making several smaller purchases under \$10,000 with several different dealers would eliminate the reporting requirement, that advice is structuring.

Financial planners dealing with multiple transactions of cash should be very aware of the fact that the IRS states that Form 8300 must be filed if the planner as a recipient of the cash knows, or has reason to know, that each transaction is one of a series of connected transactions that will total \$10,000 or over within one year of the initial payment. Further, voluntary

use of Form 8300 may be filed for suspicious cash transactions even if the amount does not exceed \$10,000.

The penalties for violation of the cash reporting requirements are severe as shown in this excerpt from Form 8300:

****Penalties – You may be subject to penalties if you fail to file a correct and complete Form 8300 on time (by the 15th day after the cash was received- Ed) and you cannot show that the failure was due to reasonable cause. You may also be subject to penalties if you fail to furnish timely a correct and complete statement to each person named in a required report. A minimum penalty of \$25,000 may be imposed if the failure is due to an intentional disregard of the cash reporting requirements.***

Penalties may also be imposed for causing, or attempting to cause, a trade or business or fail to file a required report; for causing or attempting to cause, a trade or business to file a required report containing a material omission or misstatement of fact; or for structuring, or attempting to structure, transactions to avoid the reporting requirements. These violations may also be subject to criminal prosecution which, upon conviction, may result in imprisonment of up to 5 years or fines of up to \$250,000 for individuals and \$500,000 for corporations or both.

In May of 1992, The Financial Crimes Enforcement Network ("FinCEN") was established by the Treasury Department. Its purpose: to provide an intelligence and analytical network in support of the detection, investigation and prosecution of domestic and international money laundering and other financial crimes. The users of this network are Federal, State, local and foreign law enforcement agencies.

Several "sting" operations have resulted in successful prosecutions of some coin dealers and financial advisors. The pleading of ignorance to these laws fall on deaf ears. Know the laws, comply with them. Violating this statute is not worth your career.

Nostradamus Revisited...We Were Warned

The article that follows was published in our March 2000 issue of Rare Coin Investment Trends..

"Here are a few excerpts from the European press in reference to the US stock market, all during the month of March 2000.

Eurobusiness, "In short, the lunatics have taken over the asylum and the asylum is Wall Street. When the correction comes, and it's not a question of if, but when, like 1929, there will be little warning. Wall Street has become a giant pyramid or Ponzi scheme."

The London Guardian, "The longer we go without a crash, the worse the crash will be when it happens. The American economy is wildly unbalanced, a classical bubble. Greenspan and others will try to stave off the crash, until after the election. But can they do this? Is it controllable? The timing is unpredictable, but it's obvious there will be a crash."

The London Times, "TMT is becoming explosive and dangerous to the world economy. Technology, media and telecommunications stocks are sucking capital out of the old economy, forcing many sound and progressive companies to cut back their investments, succumb to unwelcome takeovers, or turn their back on stock market investors by going private."

LeFigaro, from Edgar Van Tuyl, head of the Swiss bank Pictet: "the incredibly high valuation of the Internet stocks relies on magic, since it cannot be explained either by expected benefits, or by lowering of interest rates. It is reminiscent of the similar rise of biotechnology stocks five years ago, and the rise of real estate stocks in Japan in the 1980s. Those sectors had one trait in common: a strong link to excess liquidity. When credit increases, titles go up in a vertiginous way. But, what happens when liquidity is inadequate? It is simple: They collapse."

The London Guardian, "The reality is that nearly all of these Internet companies are selling nothing but the products of the old economy in a novel way. The arrival of Internet commerce has created a deflationary environment in which it is difficult to make serious profits in the marketplace. It is small wonder that hardly any dot.com companies selling to the consumer are making money, either here or in the U.S. A meltdown is inevitable."

The London Observer, "For the first time, our generation is witnessing a real over-the-top, unstoppable speculative bubble that can and will end in tears. We are in the grip of a collective madness, as the lust for dot.com companies reaches a new pitch. The crash is inevitable. The giant correction, when it comes, will so puncture the financial system's balance sheet that it will be unable, for a period, to finance normal levels of business activity."

"...The longer we go without a crash, the worse the crash will be when it happens. The American economy is wildly unbalanced, a classical bubble.."

How A Proof Coin Is Made

(From "The Guidebook to United State Coins" 2001 Edition)

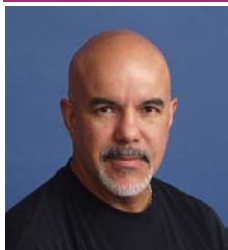


Selected dies are inspected for perfection and are highly polished and cleaned. They are again wiped or polished after every 15 to 25 impressions and are replaced frequently to avoid imperfections from worn dies. Coinage blanks are polished and cleaned to assure high quality in striking. They are then hand fed into the coinage press one at a time, each blank receiving two or more blows from the dies to bring up sharp, high relief details. The coinage operation is done at slow speed with extra pressure. Finished proofs are individually inspected and are handled by gloves or tongs. They also receive a final inspection by packers before being sonically sealed in special plastic cases. After a lapse of twenty years, proof coins were struck at the Philadelphia mint from 1936 to 1942 inclusive. The striking of proof coins was suspended from 1943 to 1949 and again from 1965 to 1967. Proof sets were resumed in 1968.

Proof Coin Mintages 1957-1997

1957 - 1,247,952	1980-S - 3,554,806
1958 - 875,652	1981-S - 4,063,083
1959 - 1,149,291	1982-S - 3,857,479
1960 - 1,691,602	1983-S - 3,138,765
1961 - 3,028,244	1984-S - 2,748,430
1962 - 3,218,019	1985-S - 3,362,821
1963 - 3,075,645	1986-S - 2,411,180
1964 - 3,950,762	1987-S - 3,792,233
1968-S - 3,041,506	1988-S - 3,031,287
1969-S - 2,934,810	1989-S - 3,009,107
1970-S - 2,632,810	1990-S - 2,793,433
1971-S - 3,220,733	1991-S - 2,610,833
1972-S - 3,260,996	1992-S - 2,675,618
1973-S - 2,760,339	1993-S - 2,409,394
1974-S - 2,612,568	1994-S - 2,308,701
1975-S - 2,845,450	1995-S - 2,010,384
1976-S - 4,419,730	1996-S - 1,695,244
1977-S - 3,251,152	1997-S - 1,975,000
1978-S - 3,127,781	
1979-S - 3,677,175	

BS, MS, PhD.



Burnett Marus, RFC

In the military police, we had several acronyms that were used frequently to quickly describe situations, people or circumstances.. One of the terms, "BS, MS, PhD", was used to describe individuals with lofty plans that were too complicated for actual operational effectiveness. It meant "Bulls**t, More S**t , and Piled Higher and Deeper". This came to mind when I began to review some of the current events in the economy.

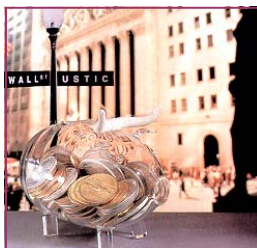
Lots has happened in the coin market; some good, some bad. Lots has happened in the stock market; some good, some bad. So, what to report, the good or the bad. I decided to look at the good. Why should I be a bearer of crappy news? Well folks, I tried. I looked at the coin market and the "boom" that was occurring according to the many coin dealers and coin publications. I found a lot of the acronym "BS". The "boom" is occurring in items called Modern Proofs in supergrade condition. Let me explain what these are.

Modern proofs are coins that are manufactured by the U.S. Mint especially for collectors. The coins are struck at least twice by the dies and are placed in sealed cases. The article opposite is from the Guide Book of United States Coins which describes in detail the process. Now, from 1957 to the present, the number of sets averaged about 2,000,000 *per year*. Since they are NOT used for currency (they are legal tender) but made for collectors the survival rate of these coins in the original condition is very high, estimated by some at 95%. So, there are plenty of these coin sets available. Also, the condition factors of these coins are very high. Read the article on proof coins again and you'll understand the quality control issue. So, you ask, what's the "BS"? The answer is rather simple.

Major elements of the coin industry are submitting to the grading services coins from these proof sets and are receiving them back in grades of PR68, PR69 and PR70. The numbers of PR68 to PR70 are reportedly low *at the present time*. The coins are promoted as rare because of the high condition factor. They are not rare. The other 2,000,000 or so sets haven't been certified yet. The e-Bay junkie that hasn't maxed out his credit card yet is buying a 3 piece set of PR69 1976 bicentennial coins for \$500 that has a population of 100. *Today*. In about five years, Mr. e-Bay is going to discover that the population of his set is now in the thousands and the value is worth less than 10% of what he paid for the set. How can the dealers price these coins at such levels today?

Easy. The Certified Coin Dealer Newsletter does not report prices above the grade of PR/MS67. What the prices charged are what the market will bear. This is the boom. It's a created market. Some of my peers in the industry agree with me, some others look to profit wherever the opportunity exists. If the "Beanie Baby" fad can be duplicated in coins...Supergrade Modern Proofs are the answer. Caveat Emptor. By the way, a similar situation exists with the statehood quarters currently being issued. The acronym "MS" is appropriate for this.

The stock market recently provided to me an example of "PhD". It seems that the DJIA and the S&P500 have made more substitutions of companies in their indices. In case you don't understand the process, it simply means the companies that are losing money or going bankrupt are replaced by firms that are making money. Voila, the index makes a gain. The index does not recognize the loss. In "real life" this would be like Mr. American Investor telling his wife not to worry that the WorldCom stock in their portfolio is now worthless. It has been magically replaced by their broker with shares of Microsoft at no cost. What a wonderful world this would be! Lose money on a stock...don't worry, it'll be replaced with another stock and the loss doesn't count. Many investors do not realize that these indices are not comprised of the same stocks of 1928, 1932, 1959, 1976, 1985, or 1999. Yet the brokerage industry quotes the average yield of the DJIA or S&P500 as if it were a constant.



I can imagine the incredible performance for the rare coin market indices if we were able to make similar changes. We could drop the \$20 Liberty, Type III, the \$5 Liberty and \$10 Liberty from our gold coin index and replace them with Gold Commemoratives, High Relief \$20 and \$4 Gold. That would give the index a great boost in performance. The average rare coin investor would still be in the same financial circumstances, but he could take psychological solace in the fact that the rare coin market index was positive and the market was "showing strength".

Some have asked about the coin auction market, after receiving letters that discussed the "hot" auction market. It's a marketing strategy. Auction firms make money regardless of the state of the coin market. They provide a service to sell coins for a fee. Whether or not you make a profit, the auction firm still makes money for it's services. It's the exact same principle that stock brokers have practiced for decades.

So, the conclusion is this. The Real Rare Coin Market is not hot...yet. If it were, we'd be all over it like a cop on a donut (not politically correct, but I'm a ex-cop, I can say it). In today's investment market, being a skeptic is necessary. Think Enron, WorldCom, the Wells Fargo \$20 Gold hoard, the U.S.S. Central America hoard. FUBAR. Look it up.

In about five years, Mr. e-Bay is going to discover that the population of his set is now in the thousands and the value is worth less than 10% of what he paid for the set..



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September-October 2002 Trend Indicators

USTIC Generic Gold Index: %Chg Trend
MS65: \$29,755 ➡ +0.00% ↑
MS64: \$10,520 ↓ -2.25% ↑
MS63: \$ 6,075 ↓ -0.86% ↑

Generic Morgan Dollar Index:
MS65: \$75.00 ➡ +0.00% ↑

CU3000 Index:
\$55,015 ↑ +0.43% ↑

Gold Bullion Spot:
\$315.50 per oz. ↓ -2.59% ↑

Silver Bullion Spot:
\$4.51 per oz. ↓ -10.33% ↑

CCDN (+/-) Count (Total: 10074 listed prices):
Plus: 297 Minus: 7 Unch: 9770 ↑

Most active series:
Morgan Dollars, Buffalo Nickels, Silver Commemorative, Walking Liberty Half Dollars

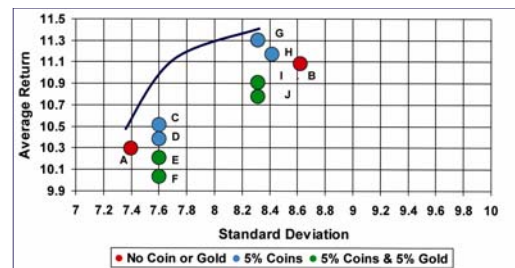
CCDN CMI Values: 5/24/01 to 8/30/02 %Chg

Silver Commem	502.36	510.18	+1.51%
Gold Commem	527.81	531.43	+0.68%
Morgan Dollars	861.34	871.15	+1.14%
Peace Dollars	601.75	638.32	+6.08%
Mint State Gold	470.68	467.99	-0.55%
Proof Gold	736.49	737.17	+0.09%
Proof Singles	628.24	742.43	+18.08%

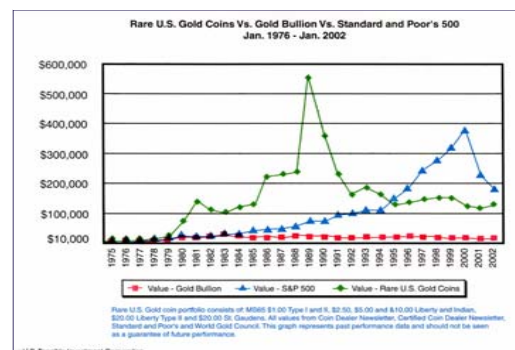
Efficient Frontier Charts: Jan 1977 - Dec 2001

Asset Classes	A	B	C	D	E	F	G	H	I	J
Stocks	33.3	50.0	31.7	31.7	30.0	30.0	47.5	47.5	45.0	45.0
Treasury Bonds	33.3	25.0	31.7	31.7	30.0	30.0	23.8	23.8	22.5	22.5
Treasury Bills	33.3	25.0	31.7	31.7	30.0	30.0	23.8	23.8	22.5	22.5
Coins (MS65)	0	0	5	0	5	0	5	0	5	0
Coins (MS63,64,65)	0	0	0	5	0	5	0	5	0	5
Gold	0	0	0	0	5	5	0	0	5	5
Average Return %	10.3	11.1	10.5	10.4	10.2	10.0	11.3	11.2	10.9	10.8
Standard Deviation	7.5	8.6	7.6	7.6	7.6	7.6	8.3	8.4	8.3	8.3

The colored columns above correspond with the matching colored dots on the chart below.



Rare Gold Coin Market Performance Jan 1976 - Jan 2002



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