

Collectors should own a little bullion

PAT HELLER • JAN 21, 2016

There is significant overlap between an interest in numismatic collecting and in the financial prospects for owning physical precious metals. For example, many longtime collectors were able to set aside U.S. silver coins at face value that they pulled out of change in their pocket in the 1960s.

Many rare coin collectors have told me that they consider part of their holdings to be a form of investing in gold and silver as prices for common-date issues often are mostly determined in relation to their intrinsic metal value. Even if you agree with their thinking, though, you may want to consider owning even more of some bullion-priced gold and silver coins and ingots as a way to help protect your numismatic collection.

From discussion with thousands of collectors over the decades, I have learned that almost every one of them plans to keep their holdings for a very long time, even sometimes expecting them to be passed on to their heirs when they die. However, the ups and downs of day-to-day living can and do sometimes bring up the need to raise quick cash.

Numismatic markets move in cycles as do financial markets. It could happen that you may one day, for any of a variety of possible reasons, be faced with needing to sell some or all of your rare coins and paper money at a weak time in the market cycle. That is where owning some physical gold and silver can help you.

Here are the some advantages in having some bullion-priced physical gold and silver as part of your holdings to protect you from the risk of having to sell your numismatic assets:

- The buy/sell spreads for bullion are tighter than for numismatic items
- Bullion-priced items are much more liquid and don't need to wait for a future auction to sell for the best price
- There is less concern about the tightening or loosening of grading standards
- Bullion-priced products tend to be readily available at any time down the road should you want to later replace them

Say, for instance, that you need to raise an extra \$1,000 or two to cover unexpectedly high expenses for a daughter's wedding (as has happened to more than one of our customers). It would be less painful to part with ounces of bullion-priced gold and silver instead of a key-date coin that it took you several years to find in the right quality at the right price. The precious metals could be relatively easy to replace upon demand where finding the key-date coin of the right grade and price could again be a multi-year effort.

There is another reason why numismatists should consider owning some bullion-priced physical gold and silver right now, which actually applies to everyone in the general public. Owning physical gold and silver is a form of "wealth insurance" against the risk of falling values in paper assets such as stocks, bonds, and currencies. As most readers of this column are aware, paper assets have had a rough start to this year. But, you may not realize the extent of the declines. Here are the year-to-date changes to various financial statistics through Friday, Jan. 15:

There are multiple reasons to anticipate that results will not improve from now through the end of 2016. For instance, on Jan. 15, New York Federal Reserve Bank President William Dudley issued a statement that he would consider reversing last month's Federal Open Market Committee federal funds interest rate hike and even let the interest rate go negative. St Louis Federal Reserve Bank President James B. Bullard also just released a comment that he thinks the economy may no longer support the plan to raise the federal funds interest rate four times over the course of 2016.

Recently it has been reported that the Dallas Federal Reserve Bank officials have been meeting with banks to pressure them to not "mark to market" loans to energy companies that are suffering lower profits and even losses from declining oil prices. In effect, the banks are allowed to report these loans as assets at full face value even though the loans would only realize a fraction of that amount if they were sold in today's market (Don't trust the financial reports of banks with loans to energy companies). As one example, Wells Fargo has \$17 billion of loans to energy companies, but only increased its reserve for possible loan defaults in this sector by \$80 million in the last reporting period.

If officials at three different Federal Reserve Bank districts are effectively admitting that the U.S. economy is worse than the public was previously told, shouldn't we listen to them?

There are a lot of people around the world that today wished that they had purchased some (or some more) bullion-priced physical gold and silver before the beginning of this year. While I cannot guarantee that gold and silver prices will continue to outperform the other assets in the future, I consider the probability to be quite high. That is why I added some to my personal holdings last month.

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