

INSIDE VIEW

AN INSIDE REPORT ON THE RARE COIN MARKET

THE NUMISMATIC FACTS OF LIFE

**A Guide To Maximizing Your Personal Enjoyment
and Financial Benefits In the Rare Coin Market**

Rare coins are beautiful and historically important, and the rare coin market has many financial benefits. Most importantly, rare coins are FUN!

But...

How do you maximize the benefits of your participation in the wonderful world of rare coins?

What coins should you buy?

How do you buy them?

How much should you pay?

What else do you need to know?

In this special issue of the *Inside View*, we are going to lay it all on the line and present the master plan for rare coin success. We call this master plan...this road map to success...THE NUMISMATIC FACTS OF LIFE.

The Numismatic Facts of Life are the ten most important facts of the rare coin marketplace. If you understand these facts and base your actions in the rare coin market on them, then you will get the most bang for your buck...the most fun, the best coins, and the maximum financial benefits.

I have tried to put these marketplace facts in logical order. And I have also included specific strategies which will help your actions conform to rare coin reality.

Numismatic Fact of Life Number One:

RARE COINS ARE A GREAT DEAL

We're starting with this positive statement because if you follow a strategy based on the nine Numismatic Coin Facts of Life that follow, rare coins are a great deal!

Fact: Rare coins are fun. In a world that's becoming increasingly impersonal, buying, owning, and/or collecting rare coins is a pursuit that is alive with history, beauty and challenge. Being bit by the coin bug is an extremely pleasurable experience.

Fact: Rare coins are beautiful works of art. United States coins minted from 1792 to roughly 1947 are spectacular works of art created by world class designers. After 1947, our circulating coins started featuring some of our deceased U.S. Presidents. Beginning in 1982, the U.S. Mint started issuing wonderful modern silver and gold commemoratives along with beautiful silver, gold and platinum bullion coins. Think of our coins as miniature artistic masterpieces.

Fact: Rare coins are historically important. Coining money is a major act of sovereignty. That's why the English Kings forbid the Colonists to make their own coins. And it's why George Washington made sure he mentioned the beginning of official United States coins in his first inaugural address. Economic booms, war, economic bad times, peace, discoveries of gold and silver...all of these monumental historical events are factors effecting why certain coins were made and why certain coins are rare. We like to call rare coins, "History in your hands."

Fact: Rare coins are challenging. Buying the right coins, or building a collection of coins, is much more than simply laying your cash on the table and saying, "Take my money." If you want to do it right, you have to educate yourself, have a plan or goal, and then have the patience and persistence to achieve your goal. When you're "done" you'll have accomplished something truly significant.

Fact: Rare coins are superbly performing long term assets that have many collateral financial benefits. The most accurate rare coin market index is the CU3000 from the online Collectors Universe Price Guide. It's the price history of the 3,000 most important rare coin issues. According to the CU3000, \$1,000 in rare coins purchased in 1970, would have an average current market value of \$64,452. Purchased wisely, rare coins aren't just a good deal, they're a great long term deal. Rare coins also offer many other collateral benefits; profits are tax-deferred, coins are a great way to pass wealth to your heirs, coins are a superb inflation hedge, and coin trades are anonymous.

Strategy: Be a long term accumulator of top quality, truly rare coins and base your actions on the realities of the marketplace, i.e. the Numismatic Facts of Life. Over the long term, your goal should be to gradually increase your rare coin holdings. Rare coins are fun, beautiful, historically important, challenging, and they are a great way to accumulate, store and pass on wealth.

Numismatic Fact of Life Number Two:

THE RIGHT APPROACH MAKES ALL THE DIFFERENCE

This is the most important fact of numismatic life. In the past forty years, I have seen thousands of people have great experiences with rare coins. I have also seen thousands of people have bad experiences in the coin market. And it is 100% clear to me that the results a person derives from the rare coin market are absolutely determined by the person's approach to the market.

I am defining success in the rare coin market as having fun and making money. I am defining failure as losing money and not having fun. And it has been my experience that the people who are successful in the coin market all have the same approach and the people who fail all make the same mistakes.

Fact: Successful participants in the rare coin market all have a specific goal and a plan to achieve that goal, and their primary focus is following their plan and achieving their goal. Successful coin buyers are aware of prices and pay attention to the financial aspects of the market, but making a profit is not their primary objective. It's a little counter intuitive but making money in the coin market is like hitting a golf ball. If you swing too hard, the ball doesn't go as far. It's the smooth, easy, relaxed swings that result in the best distance. For coin buyers, if you focus on buying coins that fit your long term plans, and only pay attention to price as a secondary consideration, then you'll make the most money possible in the rare coins market.

Fact: Unsuccessful participants in the rare coin market make random purchases with profit as a primary objective. If price and making money are your primary focus, you will buy the wrong coins for the wrong reasons, you'll hit all the traps, and you'll lose money. It's like the stock market. In the stock market, the professionals make money and the people who buy stock in great companies and hold for the long term make money, while the short term, non-professional traders all eventually get annihilated. In the coin market, the dealers make money and the people who buy great coins with a specific plan in mind make money, while the people who focus on making money "trading" the market get creamed.

Strategy: If you want to use the right approach, here are the rules:

1. Decide on a specific goal and adapt a specific plan to achieving that goal. Then don't stray from your plan. There are two ways to set a goal. First, you can build a specific set of coins. Set building is a lot of fun and it's how I've seen people have the most fun and make the most money in coins. Second, you can buy specific types of coins or coins based on a specific theme. For example, you might really like proof gold and focus on that area, or San Francisco Mint coins, or 20th Century rarities, and the list goes on and on. The important thing is to set specific goals for your rare coin portfolio/collection.
2. Do not make random, haphazard purchases of rare coins. Do not make impulse purchases based on some dealer's fancy sales pitch. Think about every coin you purchase and have a clear reason in your mind why you are buying the coin.

Numismatic Fact of Life Number Three:

QUALITY DOESN'T COST, IT PAYS

In virtually all collectibles markets, the quality of an item is always a major component of the price. The better the quality, the greater the demand. In the rare coin market there is a major focus on quality and there are significant price premiums for each step up on the quality ladder. Coin buyers want to buy the best. It's a numismatic fact of life.

There are actually very rational reasons why demand (and price) increase as quality gets higher. First, higher quality coins are more attractive than lower quality coins. They are therefore much more desirable to prospective buyers. Second, higher quality coins are generally rarer than lower quality coins. It was not the Mint's job to strike perfect coins for collectors to enjoy in years to come. It was the Mint's job to produce enough coins to satisfy the commerce needs of the nation. Therefore, the Mint struck coins as quickly as possible, often using dies even after the detail began to wear. Additionally, coins were used and not saved. This is particularly true for pre-World War II issues.

Fact: Higher quality coins always sell for higher prices. If you look at any price guide you will see that prices increase as the quality goes up. You will also see that in many cases as you approach the top end of the quality scale, the price differences between grades increase geometrically on a percentage basis.

Fact: Top quality coins have the most buyer interest. It is the top quality coins that set the price records and create the most heated action at coin auctions. It is the top quality coins that always sell first out of dealer catalogs and advertisements.

Strategy: Buy the best quality you can afford. Be a top quality chauvinist. For years we've advised clients to focus on MS/PR65 or better coins. We still like that advice. However, it is certainly okay to buy lower grades if that is all you can afford. If you're working on a set, the important thing is to complete the set. But if you can afford to, you should stick with top quality coins.

Numismatic Fact of Life Number Four:

SUPPLY AND DEMAND DRIVE THE MARKET

There are millions of different types of coins that have been made over the past few hundred years. Some of them are great rarities and some of them are still pocket change. You can tell the difference, now and in the future, by paying attention to the factors that influence supply and demand. The rare coin market is an unregulated, i.e., free market and the classic supply and demand factors are the major market influences. Besides quality, the two factors that drive rare coin supply and demand long term are rarity and importance.

Fact: Rarity is always a factor. This is the supply side of the equation. Rarer coins are obviously harder to come by. They are consequently more desirable and more expensive. But it's all quite logical in a classical economical sense. Rarity is definitely important and something you should always consider when making a purchasing decision.

Fact: Some coins are more important than others. This is the demand side of the equation. Some coins are very rare, yet have relatively low demand because nobody really cares about them. Examples of coins that are highly important include coins from extremely popular series such as Morgan dollars or Walking Liberty half dollars. Other important coins are those that

are tied to a specific historical event, such as most commemorative issues. And high profile rarities are always important coins in buyer's minds. Examples of low demand coins include highly esoteric issues, or coins from out-of-favor series that few people collect.

Strategy: Here's a few guidelines based on rarity and importance.

1. When building a collection, focus on acquiring the rarities first. It's certainly okay to buy the common coins too, as you need every coin to complete a collection. However, you should not pass the opportunity to purchase the rarest coins, as those are the coins that can sometimes be very difficult to find, let alone buy.

2. When deciding which coins to buy or which series to collect, have a bias for more popular coins and series and try to stay away from the more esoteric items. Of course, the most important thing is to buy what you like, but the popular coins are popular for a reason...they are usually the "best" coins.

Numismatic Fact of Life Number Five:

DEALERS ALWAYS ACT IN THEIR OWN SELF-INTEREST

Like all businessmen, like all humans, coin dealers always try to act in their own self interest. There is nothing wrong with self interest. It's what built this country and raised our standard of living to the highest level in the history of mankind. The problem in the coin market comes when a dealer's interests conflict with yours. How can you tell? You often can't, but the picture will stay clear if you remember that everything a dealer says and does is motivated by his self interest.

Fact: You can't beat the dealer. Coin dealers are professionals. They live in the coin market every day. Many have decades of experience. Most started as teenagers (I started selling coins when I was 14 years old, i.e., 40 years ago). There is no way you can beat a dealer at his own game. A dealer is not going to sell you a coin at "under market", you're not going to "pick him off", and you're not going to out-smart dealers in short term trades.

Fact: Dealers have short-term market interests while your market interests should be long term. While you can't "beat" the dealer, you can find a good dealer who, by acting in his own self-interest, can help you accomplish your rare coin goals. The reason this is possible is because dealer's interests are short term. They must buy and sell coins every day in order to stay in business. But your interests are long term. You're not looking to complete your collection in a week. And you're not interested in selling the coins you bought today sometime in the next two or three days. So it is possible to exploit the difference between dealers and your interests to your mutual benefit. Here's how you can do it.

Strategy: Here's a few rules based on dealers acting in their own self-interest...rules that will help you avoid problems with dealers and will also help you use a reputable dealer's tremendous knowledge and access to great coins in order to achieve your long term coin market goals. The most important strategic concept is number Four below, finding a reputable dealer who can help you achieve your long term goals.

1. Never make a coin trade based solely on a dealer's recommendation. When you ask a dealer if you should trade in your old coins and buy some of his coins, in almost every case, the dealer will say your coins have less potential than his coins. If you ask a dealer about whether a coin you are considering buying from another dealer is fairly priced, in almost every case he will say it's overpriced and then he'll try to sell you one of his "fairly priced" coins. Buy coins that you like, coins that fit your long term plans.
2. Never ask a dealer how much he paid for a coin or what his mark-up is on the coin. And never make a purchasing decision based on a dealer's claimed cost or mark-up. There is absolutely no way of knowing if he's telling the truth.
3. Ask a lot of questions. Reputable dealers don't mind answering questions. If you ask a lot of questions and the answers make sense, things are probably okay. If the answers don't make sense, hit the road.
4. Find a reputable dealer. Embrace him, befriend him, and get him to help you achieve your long term rare coin goals.

Numismatic Fact of Life Number Six:

PCGS IS THE GRADING STANDARD FOR THE RARE COIN INDUSTRY

PCGS is not the only grading service, there are about a dozen other grading services. But the absolute reality is that PCGS coins are worth the most. The coins of all grading services sell (on the dealer-to-dealer market) at a price level corresponding to the buying dealer's perception of how PCGS would grade the coin.

Except for a few issues, coins graded by other grading services sell for a 5% to 80% discount off the PCGS prices. That's the reality of the rare coin marketplace, but it's not a reality that's often acknowledged by selling dealers.

Here's how it works. A dealer will buy a non-PCGS graded coin at a 5% to 80% discount, but he'll try to sell it to you at the PCGS price. Because he deems it in his short term self interest to find ways to increase his profit margin, he'll tell you

he thinks the coin is the same as a PCGS coin. He might even tell you he thinks non-PCGS graded coins are better. But the facts, as shown by the money on the table, are that PCGS graded coins are worth the most.

Strategy: Buy PCGS graded coins exclusively. There is simply no reason why you should buy non-PCGS graded coins. If a dealer has a coin you want and it's graded by a grading service other than PCGS, ask the dealer to have the coin graded by PCGS. If the coin is as good as he says it is, he shouldn't have a problem doing this. If you buy non-PCGS graded coins, you are running the risk of getting less than you paid for. This is a financial risk you do not need to take.

Numismatic Fact of Life Number Seven:

BUYING NON-CERTIFIED COINS IS SUICIDE, BUYING NON-PCGS GRADED COINS IS SLOW DEATH

Prior to the widespread use of third party grading services (PCGS started in 1986), the coin buyer was at the mercy of the selling dealer. That's no longer the case. So why would anybody want to turn back the clock and suffer? Remember, you can't beat the dealer! Here's the way it happens. You'll buy a coin raw (uncertified) from a dealer, or from an auction, or worse, on eBay. You'll send it to PCGS to get it graded. Believe in magic, the coin will come back a lower grade than it was represented to you when you bought it. The dealer (or other seller) will tell you that PCGS is crazy and doesn't know how to grade. He'll think you'll believe him. I think you'll know better.

The same concept works with coins that have been graded by grading services other than PCGS. If you buy a non-PCGS graded coin from a dealer, he'll undoubtedly tell you that he examined the coin himself and it's fine and dandy for the grade. But you can send that coin to PCGS using their "cross-over" service. In most cases, the coin will be rejected by PCGS as not meeting their standards. Here's why. Dealers (always acting in their own self interest) will send coins that have been graded by other grading services to PCGS, using the PCGS crossover service to get the coin in a PCGS holder. They do this because PCGS coins are not only worth the most money, they are also the easiest to sell. So if you buy a non-PCGS graded coin from a dealer, he or somebody else along the line has probably already tried to have the coin graded by PCGS. If you buy non-PCGS graded coins, sooner or later, you'll have to face the fact that your coin probably does not meet PCGS grading standards. It's like a guaranteed slow financial death.

Fact: If you buy non-certified coins that are worth more than \$100, there's a better than 50% chance that the coin is over-graded, has a problem, or has been doctored. Certified coins sell for more money than non-certified coins. Therefore, knowledgeable sellers get their coins certified before they sell them. The only reason that someone would sell you a non-certified coin (with the exception of coins under \$100) is that there's something wrong with the coin.

Fact: If you buy coins graded by a grading service other than PCGS worth over \$200, there's about a 50% chance that the coins will not meet the PCGS grading standards. Most knowledgeable sellers will send any significant coin to PCGS for grading. The only reason they would sell a coin graded by another grading service is because the grade given by the grading service was higher than the PCGS grade and they can make more money selling the coin represented as that higher grade.

Fact: PCGS accepts about 50% of the coins submitted to its cross-over service as meeting the PCGS grading standards. Think about this fact carefully. Every month PCGS gets over 1,000 coins submitted through its crossover service. It rejects about half of those coins. Over time, the best half of the existing "inventory" of non-PCGS graded coins will end up in PCGS holders, while the worst half will remain in non-PCGS holders. The major reason why PCGS coins sell for more money is that they are generally nicer for the grade than coins graded by other grading services.

Strategy: Here are two hard and fast rules based on Numismatic Fact of Life Number Seven.

1. Never buy non-certified coins. There's simply no reason to do this.
2. Buy PCGS graded coins exclusively and if you have coins that were graded by some other grading service, send them to PCGS using the PCGS Crossover service. If the coins won't cross, then you should sell the coins immediately.

Numismatic Fact of Life Number Eight:

THERE ARE NO BARGAINS

Everybody likes a bargain. "Low prices," "huge discounts," "half-off"...that all sounds familiar doesn't it. But for rare coins, the truth is that you can't buy under market. Rare coins are extremely liquid, the most liquid of all collectibles. They are almost like cash. Now, if someone was offering to sell \$100 bills to you for \$90, you'd think something was wrong. I assure you it's no different in the rare coin market. No one sells \$100 coins for \$90. They don't even sell them for \$99.

Fact: If you think you're buying coins "below market," one of four things is happening: **the seller is lying** to you about something, **the coins are stolen**, the seller will **take your money and not deliver** the coins, or **the market is lower** than you think it is.

Fact: Dealers need to make a profit to stay in business.

Most reputable dealers have gross profit margins of between 20% and 25%. The one exception to this is generic gold coins and other bullion related issues, both of which sell at smaller margins. This is a fact of the marketplace and it's totally okay for dealers to make a profit. In fact, I know of no retail dealer working on profit margins below 20% that has ever stayed in business for more than a few years. If a dealer tells you he's working on less than 20%, he's probably lying to you about other things as well.

Fact: Bargain hunting is one of the biggest traps in the coin market. Bargain hunting will lead you to focusing on the wrong approach to rare coins. Remember my earlier analogy about the golf swing and short term trading in the stock market. If you look for bargains, you will buy the wrong coins for the wrong reasons.

Strategy: The fact that "There are no bargains" in the coin market doesn't mean that there aren't any good deals. Here's the strategy for making sure you look for good deals and not bargains.

1. Recognizing the reality of Numismatic Fact of Life Number Eight doesn't mean you should be a patsy. Pay attention to price and don't overpay, but make your primary focus buying coins because they are rare, high quality, important, beautiful, have good potential, and most importantly, fit into your long term plans.
2. Don't ever buy a coin because it's supposedly priced "under market." If you are offered a coin that is priced supposedly under market, it is almost a guarantee that it is a trap.
3. Don't be a bargain hunter, be an astute buyer of good coins.

Numismatic Fact of Life Number Nine:

THE RARE COIN MARKET MOVES IN CYCLES

Over the long term, rare coins have been a superbly performing tangible asset. But coins don't go up in price all the time. The fact is that the rare coin market moves in very definite cycles. And fortunately the cycles are fairly long in duration and fairly obvious.

Here's the approximate cycles of the last 31 years. Between 1970 and 1974, coin prices went up 350%. Between August 1974 and August 1976, coin prices went down 40%. Between August 1976 and March 1980, coin prices went up about 1,000%.

Between April 1980 and July 1982, coin prices went down 70%. Between August 1982 and June 1986 coin prices went up 400%. Between July 1986 and December 1987, coin prices went down 30%. Between January 1988 and June 1989, coin prices went up 300%. Between July 1989 and December 1994, coin prices went down 70%. Between January 1995 and August 1999, coin prices went up 18%. Between September 1999 and December 2001, coin prices went down 8%. From January 2002 to mid-2005 coin prices went up 50% on average, though some issues went up over 100%.

It is important to note that the coin market started to move upward in price over the last 3 years. Most of the high quality gold coins are up 65%. With the spot price of gold bullion increasing by more than double and the price of silver bullion tripling in price, some investors have been looking for other ways to invest in the metals markets in a way that will offer more leverage. With the continuing devaluation of the US Dollar we are starting to see the demand increase quite a bit. It is very easy to make the argument that the coin market is ripe and ready for an up-cycle that could last for more than a decade.

Strategy: The obvious strategy would be to buy at the bottoms and sell at the tops. There are actually two problems with this simplistic strategy. First, this strategy is easier said than done as the psychological impulse is to buy when coins are hot and sell when they are cold. Second, this buy low/sell high approach gets back to the trap of trading the market with the primary focus on profits. A better strategy is to be aware of the cyclical behavior of the coin market and buy less near the tops and buy a lot more near the bottoms.

In terms of selling, it's obviously better to plan your selling with the cycles of the market in mind. You shouldn't sell near a market bottom unless you absolutely have to. But remember, the goal is to be a long term accumulator of top quality, truly rare coins. So the right strategy is to pay attention to the cycles of the rare coin market, but don't let them get in the way of what you want to accomplish long term.

Numismatic Fact of Life Number Ten:

THE TIME IS ALWAYS RIGHT TO BUY GREAT COINS

While the coin market moves in cycles, I can think of only 18 months out of the last 36 years when it would have been inappropriate to buy coins; April to September 1974, January to June 1980, and April to September 1989. In other words, I feel that there are only 18 months out of the last 36 years when coins could have been considered "over-priced."

Strategy: Couple the above with the goal of being a long term accumulator of top quality, truly rare coin, and the strategy is as follows:

1. Try to make periodic purchase of rare coins that fit your specific plan. Buy some coins once a month, or once a quarter, or once a year, but have a consistent periodic purchasing plan.
2. Don't worry about whether the time is right to buy coins. Worry about whether you are buying the right coins.
3. This is the only suggestion I will make in this issue of the Inside View that is time sensitive. While timing of your purchases shouldn't be a primary consideration, the fact is that the coin market is currently in a very good place and coin prices are very reasonable. The U.S. Mint has estimated that there are now 60 million coin collectors in this country. In fact, I believe we are at the beginning of a coin collecting renaissance, the likes of which, we haven't seen since the 1960's. Now is a great time to start building a specific set of coins or to purchase coins based on a specific theme. Now is a great time to buy some coins.

If you have any questions please contact Van Simmons at 1-800-759-7575 or email him at van@davidhall.com

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We're here to answer your coin questions

Gerri Ferger—Accounting
John Miller—Purchasing
Fritzie Dizon—Reception
Kate Powers—Customer Service
Katia Victoria—Customer Service

COMING IN THE INSIDE VIEW

NEXT ISSUE: Barber Coinage – A special in-depth analysis of the 1892 to 1916 Barber dimes, quarters, and half dollars.

COMING ATTRACTIONS: Features on modern coins, Peace dollars, gold rarities, and a special INSIDE VIEW on the current coin collecting renaissance. Be sure and renew your subscription promptly so that you won't miss a single exciting issue.

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PRICES AND POPULATION: Note that all prices are from the online PCGS Rare Coin Price Guide and historical database. All coin population figures are from the latest issue of the PCGS Population Report.

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