



# INVESTOR'S MARKET

April 2006



# ADVISORY

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# RISK = OPPORTUNITY BY ANOTHER NAME

Things aren't always what they may seem...and that can be very good.



By Paul Montgomery

My dad, a man of considerable practical wisdom (which I didn't always understand as a boy), once told me, "Great opportunity always comes disguised as great risk."

Actually he didn't say it just once. I didn't get it at first. So my dad has repeated that pearl of wisdom to me many times until I understood it. Even today, he reminds

me of it from time to time. And even today, I'm often a little surprised at how it fits so perfectly to so many situations – in my career decisions, in my financial dealings, in my personal affairs.

Changing jobs, moving to a new community, investing money, buying a house – nearly everything important that we do involves what often appears to be great risk. Sometimes the risks may seem to loom so huge that we can't see the even bigger opportunities hidden behind the risks. If we allow the risks to become blown out of proportion in our decision-making process, we run a different risk – of missing out on that big chance to hit a home run and be a winner.

## REAL RISK VS. PERCEIVED RISK

I was thinking last night about what my dad said, and it occurred to me how perfectly it applies to buying coins.

We all know that investing involves risk. Whenever we buy into any investment – stocks, bonds, real estate, art, antiques, and yes, even coins – its value can do three things: go up, go down, stay the same.

Naturally, we want to choose those investments that will go up in value over time. But since none of us can see into the future, we have to evaluate the risks versus the rewards and decide accordingly.

"Great opportunity always comes disguised as great risk."

Conventional wisdom in the markets tells us that low risk usually means low rewards and that high reward usually involves high risk. We can play

it safe and make a few percentage points profit with our money and not run much risk of losing it all. But if we want to hit the doubles, the triples, the homers, we have to swing for the bleachers in an all-or-nothing risk.

That's how conventional wisdom tells it. And it's true as far as it goes. However, things aren't always what they appear to be.

What looks like great risk may not always actually be real risk at all. Sometimes a rare chance comes along that offers high rewards with low risk!

If we learn to distinguish between real risk and opportunity disguised as risk, we gain an important edge over the rest of the investment world.

I suspect that contrarians, which many coin buyers tend to be, may be better suited by their point of view to distinguish between real risk and opportunities camouflaged as risk.

Contrarians by nature tend to reverse-engineer ideas and concepts, to look at them the other way around from how the crowd usually sees them. The contrarian's reverse perspective has more likely odds of exposing the real opportunities hiding behind the veil of risk.

Reflecting back on what my dad said, a key word there is "disguised."

"Opportunities often parade before us pretending to be something they're not, masquerading as something to be feared rather than embraced."

## TWO IMPORTANT STEPS BY THE COIN INDUSTRY TO MINIMIZE COIN INVESTMENT RISKS

### Take rare coins as a case in point.

Until fairly recently, the circle of investors interested in rare coins was relatively small. Most investors looked on rare coins as a risky investment.

Well, that's not surprising given that mainstream investors are, by definition, conventional in their thinking. That's what makes them mainstream – thinking like the rest of the crowd.

Coins are not stocks or bonds or real estate – things they are familiar with and take comfort in. Take them out of their comfort zone and they tend to see monsters in the closet where there are none. With rare coins, they're more inclined to see great risks instead of great opportunities.

To be fair, their concerns about the risks of investing in coins were legitimate once upon a time. Before the 80s, you had to know your stuff about coins to have any clue about the value of what you were buying and to keep from paying too much for it. It was no place for investors unfamiliar with coin quality and values.

Few investors except for serious collectors and professional numismatists would make the commitment of time to gain the knowledge needed to trade in rare coins confidently back then.

It's never been easier to find a trustworthy, ethical coin dealer to buy from.

Also, sad to say, there were some coin dealers whose ethics weren't up to what they should be. The coin industry got a bad rap for shady practices by a few.

But that's practically ancient history. Two big developments in the coin industry made giant strides toward minimizing real risks involved in coin investing.

**First**, reputable independent third-party coin authentication and grading services like The Numismatic Guarantee Corporation of America (NGC) and the Professional Coin Grading Service (PCGS) removed a large part of the knowledge/expertise risk. They set up a reliable system to certify coins as to their quality and seal them in tamper-resistant cases – “slabs” we call them. That made it much easier for investors who had neither the time nor inclination to become first-rate numismatists to buy rare coins with an assurance they were getting what they paid for.

**Second**, the industry moved to drastically reduce the transaction risk (of getting burned by ethically-challenged sellers) by subscribing to the high standards adopted by the Professional Numismatists Guild (PNG). Only those dealers who live up to the demanding 17-point code of ethics established by PNG are allowed membership. This code holds members to a higher, stricter code of conduct that frowns on the kind of shenanigans that gave coin trading a bad name in earlier times. The PNG Ethics Code among other things forbids misrepresenting coins in any way and price gouging unsuspecting buyers.

Just for the record, Mike Fuljenz and I are long time members of PNG and wholeheartedly support its Code of Ethics. As a matter of fact I also serve on the PNG board of directors as an officer. I take a significant amount of pride in this as this position is an elected post by both peers and competitor members of the organization.

## VISIONARY OR CONVENTIONAL?

### THE 80/20 RULE APPLIES.

Even with these giant strides forward in making coin buying far less risky for the investor, we find among those people who have bought coins a big difference in risk perceptions about rare coins.

The old 80/20 rule (which I've learned has a real name – the Pareto Principle, named for the Italian economist Vilfredo Pareto, who worked out the math) applies pretty accurately to our business: 20 percent of our customers buy 80 percent of the coins.

That leaves a sizeable group of buyers who at some point have shown an interest in coins but have held back from taking a committed investment plunge into rare coins.

### BUT WHY?

I've made it a point to find out what makes the difference, why some people are 20-percenters and many more are 80-percenters. I've studied gobs of research on the topic. More important and more useful, I've spent a great deal of time going to the source for first-hand information.

I've talked to our account representatives. They're on the front lines talking to you, our customers and have a keen ear for what's on people's minds.

I've talked directly with many of our clients – in both categories. I've asked lots of “why” and “what if” questions.

What I've learned by all this poking around in people's heads boils down to these capsule profiles of the two groups:

Which group are you in?

**20 Percenters:** Contrarian, hard-money philosophy, fiscally (and often politically) conservative, visionary investment strategies

**80 Percenters:** Tendency toward more conventional investment strategies, interest in coins is casual and exploratory, perceived risk premium in rare coin investments, skeptical of rare coin value performance.

### Are you a 20-percenter or an 80-percenter?

If you're a 20-percenter, I'm preaching to the choir. You already know the wisdom of investing in rare coins. I'm just confirming what you've been telling anybody who would listen all along.

If you're an 80-percenter who perceives greater risk than opportunity in rare coin investments, I'd like to call your attention to some perspectives that may ease or even change your mind about it.

## RARE COIN OPPORTUNITIES SWELL WITH LITTLE DOWNSIDE RISK

We've seen how reputable third-party grading services removed much of the knowledge/expertise risk. You don't necessarily have to be a coin expert to invest in rare coins with confidence in the quality of the coins you're buying. (Of course, the more you know, the more comfortable you can be in your decisions.)

We've seen how the coin industry's self-policing code of conduct makes it much easier to avoid the risk of being burned by an unscrupulous seller. All you have to do is pick a dealer who has publicly pledged to uphold this code of conduct.

That leaves only one factor that might be considered any kind of real risk in buying rare coins these days. That is the value risk – the traditional market dynamic of value fluctuation.

There's no such thing as a "sure thing" in investments. If there were, we'd jump in on it and nobody would gain any advantage over anybody else. So nobody would gain or lose any ground financially.

What would be the point in that? Market fluctuation is what makes investing really interesting. It's also the dynamic that enables us to make money by being on the right side of a trade as values move up and down.

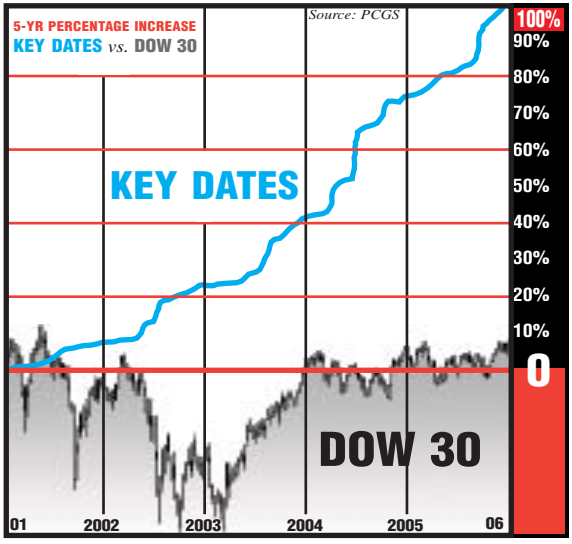
That brings me to the perceived value risk in rare coins.

I've talked to a number of people who may like bullion coins (because gold is hot) but hesitate to move to the next level and invest in rare coins. They say they know exactly what their bullion coins are worth...all they have to do is check the daily spot gold prices to get a reading. It's the same with their stocks and bonds; they can watch the price action on the Internet, even track market movements minute-by-minute if they want to spend the time doing it.

Rare coin values, they say, include intangible factors that aren't as easy for them to keep track of – mintage, rarity, scarcity, condition, liquidity. The information is out there, but not as readily accessible as online stock charts. And that makes them a little uncomfortable and at risk.

The simple answer to finding a one-stop source of information about coin investments is to call your account representative, who has all the information you may need at hand, including what's happening in the coin market at that very moment.

In the bigger picture, though, as a realistic matter the question of value risk in rare coins is pretty much a non-issue these days. Rare coin prices have been steadily rising and appear very likely to continue rising for a good long while. The only apparent risk I see is in forecasting how long it will last and how high it will go. I've examined the rising value potentials of rare coins at length in recent issues, so I won't rehash all the reasons why it's happening.



But I do want to revisit a graphic we printed in the last edition, because it has a direct bearing on this point.

The chart dramatically illustrates that over the last five years while the Dow was struggling to keep its head above the waterline, the most desired rare coins were zooming to the sky.

Now I ask you, which involved the greater value risk during this time – stocks or rare coins? I think the chart answers the question pretty emphatically.

I also think there's little or no downside risk to buying rare coins now. I said earlier there's no "sure thing" in investments, but the rare coin market comes close to it these days.

The supply of rare coins isn't getting any bigger while demand is skyrocketing. The rampaging gold bull market attracts more converts in the investor market every day as it notches higher and higher up the charts with no sign of slowing up.

As the gold magnet draws more mainstream investors, it exposes more people to the investment possibilities in rare coins. The general investing public is only now beginning to catch on – a few here, a few there - to what's been done to make coin investing safer, to unmask the opportunities behind what once seemed to be risk. And with value performance like the coin market has shown for years, more of these newcomer investors are likely to add significantly more demand to the market.

I can't and won't tell you there is no risk at all with rare coin investments. Risk is integral to any investment – including and maybe especially stocks, bonds, and other "conventional" investment instruments. It may give you some comfort to know that rare coin prices generally are far less volatile than stocks, sparing you those heart-stopping days when the market takes a dive on the strength of some headline or other. Rare coins, by comparison, expose the buyer to less risk than these other more common investment choices, at least that's what the record indicates over the last several years.

Naturally, past history doesn't predict future performance. And individual coins may not perform the same as a market index of rare coins. But, of course, those very same caveats apply to stocks and bonds equally as well.

Here's what I hope you'll remember about buying rare coins: Recognizing the difference between real risk and perceived risk and distinguishing the opportunity that lies within is what separates the visionary investor from the rest of the crowd.

Great opportunity always comes disguised as great risk.

### What kind of player are you?

"Recognizing the difference between real risk and perceived risk and distinguishing the opportunity that lies within is what separates the visionary investor from the rest of the crowd."

## Words to the Wise...

Luck and chance happen more frequently to people who work towards a certain goal. Luck is often a by-product of hard work.

- O.S. Marden, Luck and Chance

Progress always involves risk; you can't steal second base and keep your foot on first.

- Frederick Wilcox

For every reasonable risk there is at least one possible reward....But better yet, a consistent and thoughtful pattern of intelligent risk-taking will yield something even more exciting: compound rewards! Compound rewards are the surprise rewards - the rewards we cannot anticipate at the time we are considering the risk. These rewards will never have come our way if we are not been willing to step out of our comfort zone at some point.

- Jim McCormick, "Risking to Win: How to Improve Performance by Taking Risks"

One of the things every investor quickly discovers is that there are no sure deals or "can't lose" investments in this wild and wooly world. There is always risk in the marketplace. Always. The key to success is to weigh the pros and cons of every investment, and determine the prospects of success.

- Dr. Mark Skousen, chairman, Investment U

I've always had a fascination with historical coins and currency, and now is a good time to buy. Old money is hot!

- Dr. Mark Skousen, chairman, Investment U

Coming In the  
**MAY** Issue...

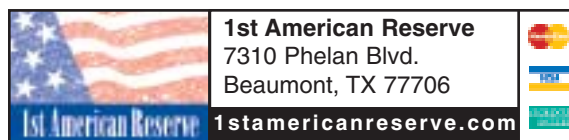
## Return of the Gold Standard

.....HUH?

There is a grassroots revolution paving the way for an unofficial neo-gold standard already underway. Next month we'll delve into consumerism and free enterprise at it's most basic level and see why your fiduciary instincts keep you coming back to the hard money arena.

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welcomes the opportunity to  
be your rare coin team.  
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