

How can I invest in Rare Coins,
when I don't know *anything* about them?



21 Questions and *answers*
about investing in rare coins

By Thomas M. Pilitowski

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Sincerely

Thomas M. Pilitowski

A handwritten signature in dark ink, appearing to read 'T. Pilitowski', with a stylized flourish below it.

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1) What is a 'Rare Coin'?

Webster's defines "rare" as something not frequently found; scarce; uncommon or unusual. The word "rare" as it is used in the numismatic industry has a more vague meaning. Because a coin's rarity is relative, many coins are referred to as "rare coins" even though there may be 500,000 of that specific coin in existence. For example, 484,000 specimens of the famous 1909s VDB Lincoln Cent were minted, and more than 4,000 have been certified by the leading third-party coin grading services, yet that coin is deemed to be eminently rare and desirable.

A coin can be "rare" because of a relatively low mintage, a low survival rate, and/or because nobody wants to sell the specimens they have. Demand also plays a role in a coin's rarity. If there is only one specimen of a coin and ten people want it, it is "rare" relative to the demand for it.

2) Isn't the condition of the coin important?

The condition is very important. Although there is no specific grade to exclude, the general rule of thumb is that a higher grade coin from a certain series will usually be in greater demand and will outperform the lower grade example of the same coin in terms of appreciation.

3) How can I be assured the coins are genuine?

Today, several third-party services exist which can objectively determine the authenticity and condition of coins. The two largest of these are the Professional Coin Grading Service (PCGS) and the Numismatic Guarantee Corporation (NGC). These companies encapsulate the coins to protect them from future damage and assign a unique serial number to each coin, so that its

identity may be verified. Both PCGS and NGC issue a written guarantee of their conclusions on the authenticity and condition of the coin.

Their opinions and guarantees are widely respected in the rare coin industry.

4) Are rare coins traded on an exchange?

While there are currently two teletype/computer trading exchanges in existence for coins, these trading systems are not the heart of the industry. Generally speaking, the coins traded on these systems are the more common coins that exist in large quantities or the low end coins in a particular grade. At this time, the heart of the numismatic community is the great demand that exists for attractive and truly rare coins. These coins are usually purchased on a sight-seen basis among the most knowledgeable dealers and collectors.

5) How much do they cost?

Quality rare coins can be purchased for as little as \$300 or as much as \$2,500,00. The price range for a large percentage of the high quality rare coins is between \$1,000 and \$25,000.

6) How liquid are rare coins?

Liquidity refers to the ease with which the coins can be sold. While rare coins are illiquid when compared with futures contracts or securities, they are by far the most liquid "collectible." Most coins can be sold (if you are a motivated seller) within one to seven days in the United States.

7) Do they ever go down in value?

Yes. As with any economic good, rare coins are subject to the laws of supply and demand. While



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more popular rare coins have a more enduring demand, and are therefore less likely to decline in value, by 1996, some rare coins were trading at 15-20% of their 1989 highs. Nevertheless, there are examples of where, despite the previous bear market, rarities have brought prices in excess of anyone's expectations.

8) Where can I keep rare coins so they'll be safe?

Coins can be kept anywhere they are protected from theft, mechanical damage, or harsh environmental conditions. The chemically reactive nature of copper and silver in coins can cause them to corrode and tarnish severely, seriously impairing their values. A dry area with an even temperature works best to maintain the coins' conditions. The two most popular places for storing coins are in safety deposit boxes or in home safes.

9) Can they be insured?

Yes. Coins can be insured under your home owner's policy or you can purchase a separate policy. Coin insurance is also available from the American Numismatic Association, 818 North Cascade Ave., Colorado Springs, CO 80903-3279.

10) Does it matter whether the coins are made of copper, nickel, silver or gold?

Different types of coins have different collector bases. While high quality coins may be found in all metals, gold and silver coins are often the most sought-after by collectors and investors alike. Nickel coins have a fairly liquid market, while copper coins tend to be somewhat unpredictable because they are difficult to maintain in good condition (humidity affects them more).

11) What is the best source of rare coins? Auctions? Coin shows? Dealers? Garage Sales?

Coins can be obtained from all these sources. Auctions can provide interesting information and access to major rarities; shows can allow for easy comparison shopping; and dealers can assist you in building a collection.

12) How do I get a rare coin graded?

The coin grading services each have a network of authorized dealers who can assist you in getting coins graded. These dealers can help you by prescreening your coins and determining which ones are worth submitting to the grading services. They can also counsel you about the best level of service to use and the best time to submit your coins. Professional Coin Grading Service (PCGS) and Numismatic Guarantee Corporation (NGC) are the two largest coin grading services. Generally speaking, it costs \$25.00 to \$50.00 to have a coin graded (unless you want next-day service).

13) Do they ever make mistakes when grading coins?

Coin grading is not an exact science. Grading opinions may vary, and mistakes can occur. This is why it is important to become educated and to build a relationship with a reputable dealer, to ensure that such mistakes do not occur with *your* coins.

14) Do US coins appreciate in value more than coins from other countries?

High quality coins can be obtained from numerous countries, and many collectors follow each series. Currently in the United States, U.S. coins are most actively traded because collectors are more familiar with U.S. coins than they are



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with non-U.S. coins, making U.S. coins more liquid than coins from other countries. Because of a general lack of knowledge of coins from other countries, major non U.S. rarities may trade at a fraction of what a comparable U.S. coin might cost. Some investors believe that non-U.S. rarities may represent key opportunities for future appreciation, and also be worthwhile additions to their collections.

15) Aren't all coin dealers alike?

No. Dealers are as individualized as coin collectors. While the majority of dealers are ethical and honest (as with any other field of endeavor), each has a different personality and style which may or may not blend well with your own. Some may be struggling to make a sales quota to cover expenses daily, while others may be looking to the long run to build a solid customer base. Look for the dealer who has your best long-term interests in mind. You might ask him questions like, "How long have you been in the business?" "Where do you get your coins?" "Why do you think I should buy that particular coin?" Due to the confidential nature of the business, even the best dealers may only be able to supply you with a reference or two. As an alternative, press releases about the broker from unbiased sources could be requested.

16) Is the rare coin industry regulated?

The rare coin industry, like many others, falls under the Federal Trade Commission's jurisdiction. Also, to the extent that sales occur through the U.S. Mail, the U.S. Postal system may have something to say about the way business is conducted. Both sets of regulations are fairly broad and therefore prohibit such things as fraud and theft, etc., but as yet, the thousands of rules and bureaucratic red tape that

govern the futures and securities industries do not apply to rare coins. To some extent, because of the international nature of the coin industry, it is difficult for any one government to regulate the industry - it might chase the business out of the country. For the time being, it's still *caveat emptor!*

17) How is the gain or loss upon sale treated for tax purposes?

For collectors and investors, rare coins are "capital assets" (see Internal Revenue Code Section 1221); therefore, any gain or loss upon their sale is treated as a capital gain or loss. Such gains or losses are reported on Schedule D of the individual's Form 1040 tax return.

18) When I sell bullion coins to a dealer, he must report the sale to the IRS on form 8308. Does he have to report the sale of rare coins too?

No. Under current tax laws, individual sales of rare coins do not need to be reported to the Internal Revenue Service by the dealer's purchasing them. Each individual seller is obligated to report gains or losses on his/her own tax return.

19) How do coins perform as an investment?

Coins can perform very well as an investment, or they can perform very poorly, depending upon their quality and the timing of their purchases. Attractive coins purchased at reasonable prices in the right grades and complete sets can be very easy to sell at a profit. On the other hand, ugly, overgraded and overpriced coins can generate a substantial loss upon sale.

By way of example, Mr. Louis Eliasberg, Sr. endeavored to collect every date, mint, and



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denomination of U.S. coin. He was successful. Not only was his collection complete, but his specimens were of the highest “investment type” quality. Estimates value his total purchases at \$400,000 (purchases from the 1920s thru the 1950s). When his coins were sold at public auction in 1996 and 1997, the proceeds exceeded \$44 million, representing more than a 200% *annual* return.

By way of contrast, common-dated Barber Quarters dated between 1892 and 1916 were trading at \$5,000 on June 2, 1989, in MS 65 condition and are currently available at \$1,200. Common date \$20 Liberty gold coins (Proof 65) were trading at \$52,000 on June 2, 1989, and on June 2, 1997, they were \$20,000.

20) Why should I invest in rare coins?

There are several reasons to purchase rare coins. First, they aren't making them any more. The supply is limited and, in some cases, shrinking, which means that their prices are primarily affected by demand and inflation. If prices realized for rare coins at auctions are any indication, demand is on the rise, because inflation has been relatively low lately and prices realized went up during the first half of 1997.

Secondly, they are portable and not as traceable as some other media of exchange. You can carry a rare coin worth \$500,000 in your pocket without anyone knowing it. In other words, they are a “private” investment.

Lastly, they can be fun to collect. Some coins are pretty, and the older they are, the more history can be associated with them. Some people enjoy researching what was happening in Peru in 1838, Transylvania in 1588, or the United States in 1792 when they buy a coin from those lands of that vintage. Collecting sets can also be a

rewarding challenge for some collectors.

21) How can I learn more about investing in rare coins? Which books should I read?

Knowledge is very important in the rare coin business. Is a coin AU 50 or MS 60? It makes a tremendous difference in its value, but how do I grade a coin? *How to grade U.S. coins* by James L. Halperin may prove helpful. The American Numismatic Association (ANA) offers free coin-grading seminars at their annual convention and has a monthly publication for those who join the association. *A Guide Book of United States Coins* (The Red Book) by R.S. Yeoman comes out every year (1997 was its 50th edition) with prices and pictures. If coins are graded by a grading service this greatly reduces the need to be able to grade coins yourself.

Current periodicals, such as *Coin World* and *Numismatic News* can keep you in touch with current market conditions. If you are primarily interested in U.S. coins, *Walter Breen's Complete Encyclopedia of U.S. and Colonial Coins* is exceptionally useful. For world gold coins there's *Gold Coins of the World*, revised and edited by Arthur L. and Ira S. Friedberg.

Standard References

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Additional Sources of Information

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