

Can you Really “Invest” in Rare Coins?

Numismatic dealers and firms categorize customers into three major groups: the average collector, the advanced collector and the investor. This article focuses on the last group, and explains what constitutes a rare coin “investment.” At what level is a customer really “investing” in rare coins? And what kinds of rare coin programs best enable a customer to realize profit and reward in the long term?

The majority of people investing in securities, bonds and fixed income assets are in it for the long haul. The same type of approach and patience should be taken in rare coins, as a well developed, quality coin collection can provide similar—if not greater—returns for the collector/investor.

The rare coin industry is basically a niche market within the tangible assets market. Although annual sales are a fraction of the securities market, informed and disciplined individuals can indeed acquire tangible assets that have the ability to increase in value over the long term, often substantially.

Following are the factors affecting whether a coin is an “investment” quality coin, i.e. a good investment:

1) Numismatic Significance

Any rare coin has numismatic significance, but issues that have a stronger historical connection may be more valuable. There are historically important issues struck in all metals: brass, copper, silver and gold. A few of the major groups are:

- First year issues of the major design types.
- Civil War issues. These are always popular with collectors; even a common Civil War issue with a high mintage figure will carry a premium.
- Continental dollars (America’s “First Dollar”).
- Short issue major type coins, e.g. Type II gold dollars.
- Chain Cents and Wreath Cents.
- Southern branch mint coinage, e.g. Charlotte, Dahlonega, New Orleans and mints that no longer exist but were of paramount importance in our nation’s history.
- First Mint issues.

2) Grade Consideration

For each particular issue of United States coins, one needs to look at what are the most collectable and saleable grades. For instance, if you accumulate Charlotte and Dahlonega issues you must consider that specimens grading MS62 to MS64 are generally going to be Condition Census pieces. It might not be the best plan to collect all Condition Census pieces. They generally cost more than \$15,000 each

and can be more difficult to liquidate because there is a smaller collector base for coins over \$10,000. However, it makes sense to collect “type coins” in ultra high gem grades because they are low population, beautiful and can still be found at prices under \$10,000.

The above Charlotte/Dahlonaga and gem “type” scenarios apply to many different areas of numismatics. Sometimes gem quality coins work, and sometimes they are not the best choice. If you don’t want to get too heavily involved in the detail study of numismatics but want to invest seriously in rare coins, a specialist will help you determine the appropriate grade consideration for your numismatic goals.

3) Rarity

The rarer the better, right? Not necessarily. Absolute rarity must be coupled with numismatic significance, quality and grade consideration to properly weigh this factor for buying coins.

Rarity must be considered along with supply and demand. For instance, there are many Philadelphia Mint eagle issues that are very low mintage and very low population—very rare coins. However, they frequently are priced far below issues of the same rarity (this does not include the 1875 \$10, a well known classic). The point is there are some coins in which the mass coin buying public just does not have strong interest. From a different perspective, these could be great opportunities to acquire legitimate rarities while prices are sleeping.

Or look at some of the more frequently seen proof gold half eagles and eagles that are seen in PCGS or NGC PR65 or better. These issues are always headlined as “superbly rare” when in fact some issues appear in almost every auction. The actual rarity is in the high grade and the proof gold status. Remember, all proof gold had tiny mintages and should be in high grade since circulation was not a factor. The important concept with this example is that the demand for gem quality proof gold is strong and has always been considered the paragon of U.S. rare gold coins. In this case, rarity and reputation add to the coins’ status.

Finally, consider legitimate rare coins found in low grades, e.g. chain cents, early half dimes, dimes, early gold, etc. It is difficult to find these coins in nice quality Fine to Very Fine or to accumulate high quality lower end circulated key dates from certain eras and issues. Such coins tend to trade well above printed price levels because to actually locate a nice example of a heavily circulated coin is indeed rare.

Anyone investing in rare coins should examine the above examples of varying types of rarity. Some coins are so rare that they can be difficult to sell, or liquidate. Others are so in demand that current pricing structures present unrealistic guidelines for buyers.

4) Undervalued Coins

Determining whether or not a coin or coin series is undervalued is a lengthy and sophisticated endeavor. In order to identify what coins are undervalued in a series or what series are undervalued within the entire market, one must be able to compile substantial hard population and price data and then do the math. In many cases the analytical results coupled with a dealer's opinion will help to figure out if a coin is undervalued. Sometimes however, a coin or series may seem undervalued but in actuality, the market for that coin or series has diminished.

5) Liquidity

Liquidity is essential to a coin investment goal. Although coin acquisition should be a long term investment, sometimes goals are cut short. Coins need to be liquid and desirable in case they need to be sold immediately to raise funds. Obviously, not every coin owned can be a super liquid issue, guaranteeing immediate sale. But if all the factors mentioned previously in this article are evaluated and practiced, then liquidity will already exist.

For instance, certain "Classic Rarities" are fairly liquid, e.g. Stella's, 1792 Half Dimes, etc., while others are more esoteric and less marketable. Items like generic Saints in MS63 and MS64 and 1854 and 1855 Type II gold dollars are as liquid as it gets and are considered "cash coins."

In order to put into perspective the above points, following is a theoretical \$100,000 coin collection that would probably be a good store of value for someone who likes rare coins but wants to invest in a hands-off manner:

- **\$30,000 in generic Saints in PCGS or NGC MS63 and MS64**

This value could be reduced to \$15,000 depending on the individual's opinion of the current precious metals market. If one believes that we are in the early stages of a long term bull market in precious metals, I would suggest investing \$30,000 in these "semi-numismatics." Otherwise, put just \$15,000 into the generic double eagles. These coins carry a relatively small premium over gold spot and they benefit from a bull market in gold on both the bullion and numismatic sides.

If a \$30,000 allocation is preferred, place \$15,000 in MS63 coins and \$15,000 in MS64 coins. This would give the investor approximately 51 coins (at today's spot value of \$373.83). Each United States Saint Gauden double eagle contains nearly one full ounce of gold and these coins always trade on very small spreads.

- **\$20,000 in Gem Proof Type Silver Coinage**

Seated Liberty quarters, Seated Liberty halves, Barber quarters and Barber halves have historically done very well in strong rare coin markets. One can still buy

legitimately rare coins that are beautiful, have low pops and are less than \$5,000 each. Therefore, with \$20,000 I would suggest obtaining an example of each of these coins. To be more specific:

- (1) Seated Liberty Quarter with Motto PCGS PR66+
- (1) Seated Liberty Half Dollar with Motto PCGS PR66+
- (1) Barber Quarter PCGS PR66+
- (1) Barber Half Dollar PCGS PR66+

Collect these issues in PCGS because the market is a little stronger for PCGS coins right now. However, I have seen extremely beautiful coins in NGC holders and these should not be passed over.

- **\$25,000 in Early Silver Draped Bust Type**

There are two areas of numismatics that I think have enormous potential—U.S. Early Silver Draped Bust Type and U.S. Early Gold. For Early Silver Draped Bust Type, I would buy coins in the Extremely Fine to About Uncirculated grades. My suggestion is to acquire one each of the following:

- (1) Draped Bust, Heraldic Eagle Half Dime in PCGS/NGC AU50+
- (1) 1796 10c in PCGS/NGC XF45 to AU50 (first year type coin)
- (1) Draped Bust, Heraldic Eagle Quarter (1805-1807) in AU50+
- (1) 1795 2 Leaves 50c in PCGS/NGC VF20+

- **\$25,000 in one “Classic” rarity**

This coin could be picked from any series but serious consideration should be given to one of the undervalued issues from the \$3 gold series. Deciding which coin to purchase would involve analytical study to identify the candidate that possesses the best combination of the six factors mentioned in this article and that still can be purchased for less than \$25,000. This could be a tough job, and one in which a dealer would be of service.

- **Option**

If you don't want to take a chance on a long term bull market in precious metals and only invest \$15,000 in generic gold double eagles, the remaining \$15,000 should be invested in early gold type. Obtain one of each of the following:

- Capped Bust, Small Diameter \$2.50 in PCGS/NGC XF45-AU55
- Draped Bust, Heraldic Eagle \$5.00 in PCGS/NGC AU55-58

This theoretical \$100,000 is listed here only to give an example on how to break up funds intended for a rare coin investment. There are so many different combinations that could be utilized and in the end it is up to the investor with the help of a dealer to decide what is best to fulfill the rare coin investment goals.

In summary, although the rare coin industry is still predominately a collectibles field, of a sort of precious metals artwork, there is still a place for the “investor.” With the complete market dominance by PCGS and NGC, it has become much easier for rare coins to be viewed, bought and traded as commodities.

Personally, I cannot think of any better combination of tangible assets, collectibles and artwork. In the future, many of the youth now so heavily involved in the State Quarter program will grow the rare coin industry substantially. The admiration and collection of coins has been around for thousands of years and will not disappear anytime soon.

My final conclusion—you *can* invest in rare coins. It will definitely require a different train of thought and the close help of a loyal dealer, but one can indeed approach rare coins with an investment frame of mind.

If you are interested in discussing this article or for detailed information on how DC Numismatics can help you meet your numismatic goals, please contact David Cloyed.