

Testimony of Beth Deisher, Editor, *Coin World*
before the HOUSE FINANCIAL SERVICES
SUBCOMMITTEE ON DOMESTIC MONETARY POLICY AND TECHNOLOGY

HEARING April 7, 2011, entitled:
“Bullion Coin Programs of the United States Mint: Can They Be Improved?”

Mr. Chairman, my name is Beth Deisher. I am editor of *Coin World*, the largest and most widely circulated news weekly serving collectors of coins, medals, paper money and any objects once used as money. *Coin World* is entering its 51st year of publication and I am in my 26th year as editor.

I would like to thank you and the Subcommittee for inviting me to testify today.

During my career I have been privileged to chronicle the U.S. Mint’s bullion coin programs from their origin in the research and recommendations of the Gold Commission in 1982; to the passage of legislation authorizing the American Eagle gold and silver bullion coins in 1985; to the gold bullion first-strike ceremony at West Point on Sept. 8, 1986; and through the twists and turns of the ensuing 25 years.

Since *Coin World’s* largest constituency is comprised of collectors, my testimony will articulate the views of collectors, who often also are investors.

The quality of silver, gold, and platinum bullion coins produced by the U.S. Mint is exceptional. However, the marketing of these coins is sub par and is often disruptive to the marketplace.

Most of the Mint’s problems in marketing bullion coins are rooted in an ongoing failure to understand who its customers are and why they purchase bullion coins. For example, in 1995 the Mint decided to produce a limited edition 10th Anniversary American Eagle Gold Proof set and include a Proof silver American Eagle bearing a W Mint mark for the West Point facility. Mint officials said inclusion of the special silver Eagle was to “reward loyal customers” with the silver American Eagle as a gift. Perhaps from a general marketing perspective, it sounds good: Offer high-ticket-item customers something special – even give them a gift – and maybe they’ll feel good enough and be enticed to purchase more. But also part of the agenda is to entice more low-ticket-item purchasers to “buy up,” or move into the higher-priced items for the “gift” inducement. Such tactics in certain specialized markets may be commonplace. But in the numismatic marketplace they are sure to reap ill will and lead to a loss, not a gain, in customers.

The problem for collectors: the Proof 1995-W silver American Eagle was available only by purchasing the gold Proof set. Collectors strive to collect sets or series of coins. They seek completeness. Most have a budget and set aside or earmark a certain amount to spend on their hobby each year. Had Mint officials bothered to look at the sales history of

the Proof gold and silver bullion coins, it would have been obvious that far more collectors were buying silver Proof Eagles than gold Proof Eagles. Silver and gold buyers/collectors constitute two different sectors of the Mint's bullion coin market. During 1993 the Mint had sold 403,625 silver Proof Eagles and only 24,023 four-coin sets of Proof Eagle gold. In 1994, the sales ratio of silver Proofs to gold Proof sets was virtually the same.

What Mint marketers failed to understand is that the newly contrived rarity – the limited-issue 1995-W Proof silver Eagles – was a must, not a want for those collectors whose goal it was to have a complete set of silver Proof American Eagles. Those who had been building a collection of Proof silver Eagles and routinely paying \$23 in pre-issue, in 1995 had to spend \$999 for the Anniversary set in order to obtain the coin, regardless of whether they collected gold coins. The overwhelming majority did not collect gold coins of any kind.

If every Proof American Eagle silver coin sold represented a collector (which we understand was not the case, but nevertheless illustrates the point), it meant that more than 300,000 who bought silver Proof Eagles in 1994 would be prevented henceforth from forming a complete collection.

So why would the U.S. Mint risk alienating 300,000 customers just to “reward” 45,000? The only logical conclusion is Mint marketers did not understand their markets or care about their customer base. They didn't understand the concept of collecting. They did not understand the desire for completeness. And they did not understand that collectors resent being “enticed” (some say blackmailed) into buying coins they don't want or need for their collections.

Today, we know the rest of the story. Only 30,125 of the Proof 1995-W silver American Eagles were sold in the gold Proof sets. Virtually every one was removed from the sets and sold separately. Today it remains the key to the set of Proof silver American Eagle bullion coins. Today the Proof 1995-W silver American Eagle sells for \$2,800 to \$11,500, depending on grade. But more importantly, only 30,125 complete sets of the Proof silver American Eagle bullion coins can ever be assembled. For those who gambled or had the money to purchase in 1995, it became a good investment.

But is it the role of the U.S. Mint to intentionally create rarities? The U.S. Mint is a government factory and it is the only entity authorized to strike U.S. coins. It enjoys monopoly status.

Marketing multi-year bullion coin programs appears to be an area in which the Mint continues on a self-destruct path, in which mistakes made in the first year of offering dramatically reduce sales potential for the remainder of the program. In 2007, the first year for the 14-year First Spouse .9999 fine gold bullion coin program, the Mint limited production to 20,000 Uncirculated and 20,000 Proof versions – setting up a maximum mintage of 40,000. Typically, it offered the coins through its website and dealers and collectors rushed to buy. Dealers and speculators squeezed out individual collectors.

Prices on the secondary market skyrocketed. Many collectors, who were initially enthusiastic, turned away and decided not to collect the series. Mintages tell the story. Sales for the first coin in the series, honoring Martha Washington, were 17,661 Uncirculated coins and 19,168 Proof coins. In 2010, only 1,634 Uncirculated versions of the Jane Pierce First Spouse bullion coin were sold and 3,180 of the Proof version. Setting a high threshold to entry discourages collectors to build sets and continue collecting for the duration of a multi-year program.

The most current example is the Mint's decision to produce only 33,000 of each design of the 5-ounce .999 fine silver versions of the 2010 America the Beautiful quarter dollars. The 3-inch in diameter coins are supposed to be the investment component of an 11-year program honoring five national parks and historical sites annually on the reverses of circulating quarter dollars.

Although the authorization for the giant bullion coins was approved in December 2008, the Mint delayed in procuring a press and testing, resulting in a late production start (Sept. 21) for 2010. Despite the Mint's earlier announcements suggesting 100,000 of each of the five designs would be available to the market, five days before sales to the public were to begin the Mint disclosed it would instead produce only 33,000 for each of the five bullion designs bearing the 2010 date for distribution through its established network of Authorized Purchasers. You will likely hear from others about the problems the Authorized Purchasers encountered in marketing these coins. But again, we have low mintages that smack of contrived rarity, without thought or concern about the long-term consequences of these extremely low mintages. Will disappointed collectors skip the series in the future because they were shut out the first year?

Who wants an incomplete set or to be forced to pay exorbitant premiums for the keys to the series? Even if the coins are widely dispersed into the marketplace, only 33,000 complete sets will ever be possible.

With such low mintages, why did Mint decision makers go forward with an Uncirculated "numismatic" version of the America the Beautiful 5-ounce .999 fine silver bullion coins of an even lower mintage (27,000)? Why not make 60,000 of the bullion version and establish a larger base of buyers? Given that the "numismatic versions" have now been produced, why is the Mint waiting until the spring of 2011 to sell them?

At best, it appears to be a poorly executed program. At worst, it fits the all-too familiar pattern of marketing behavior the collector community has witnessed through the years. The U.S. Mint creates limited-issue coin products and offers a short purchasing window at its website with limited bandwidth or through APs. This fuels speculation. Some people are able to sit by their computers during business work hours and purchase in quantities, thereby shutting out others. Those who successfully obtain the coins race to eBay to sell them at exorbitant prices and high profits. But the vast majority of potential buyers are left with the decision: "Should I continue to collector/invest in bullion coins, or should I use my money for something else?" – and possibly leave the coin market entirely.

RECOMMENDATION: The U.S. Mint should avoid purposely creating rarities.

RECOMMENDATION: The U.S. Mint should spend time and resources to better acquaint its marketing staff with its various customer constituencies for its coin products.

RECOMMENDATION: The U.S. Mint should better inform its customers as to when its coin products are going to be available in the marketplace.

RECOMMENDATION: The U.S. Mint should mint to demand by allowing a certain number of days for collector versions of bullion coin products to be purchased and/or ordered.

RECOMMENDATION: The U.S. Mint should increase bandwidth for its website to facilitate the handling of high-traffic ordering periods.

Another facet of the bullion coin market U.S. Mint officials fail to understand or appreciate is the need for continuity of programs. For example, because Mint management had failed to secure additional manufacturers of silver planchets in 2009 to meet the demand for 2009 silver American Eagles, it said it could not produce the Proof versions for the collector market. Although the Proof versions would have constituted approximately 3 percent of its production, no provisions were made to avoid disrupting an annual program in place for 23 years with a sales potential of about 800,000 coins.

Rising precious metals prices in the last three years have created unprecedented demand for the 1-ounce versions of the silver and gold American Eagle gold bullion coins. Again, failure to secure planchet suppliers and poor planning resulted in uncertainty in the markets as to whether fractional gold bullion coins would be available.

There are collecting constituencies for both the bullion and Proof versions of fractional (tenth-ounce, quarter-ounce, and half-ounce) gold American Eagles. Mint officials announced the availability of fractional gold bullion coins the first week of December in 2009 – virtually too late to obtain them for gifts and well after many collectors had exhausted their pocketbooks during the holiday season.

RECOMMENDATION: The U. S. Mint should secure more planchet suppliers and better plan procurement and manufacturing so as to avoid disrupting profitable and popular coin programs.

RECOMMENDATION: The U.S. Mint should exercise care in scheduling bullion coin sales so that they are more evenly paced throughout the year and not dump coins into the marketplace near the end of the calendar year.

Mint officials also need to take responsibility for better communicating to the consuming public with regard to the coins the U.S Mint produces. For example, the Mint responded to questionable marketing practices, whereby grading services and cable

television hawkers sell both bullion and collector versions of its coins as “first-strikes,” with a Consumer Alert, now buried in an archive at its website. Although the Mint does not designate any of the bullion coins struck on its presses in regular production as “first strikes” nor does it track the order in which it produces them, since 2005 and 2006 it has turned a blind eye toward the practices of those in the coin market who designate certain coins as “first-strikes” based on packaging and packing slips, or on the dates of product releases for ceremonial coin launch events. Mint officials have stated unequivocally that the date on the box represents the date that the box was packed, verified and sealed, and the date of packaging does not necessarily correlate with the date of manufacture; other numbers on the shipping label and packing slip are used to track the order and for quality control. Yet, many consumers pay high premiums for bullion coins labeled as “first-strike.”

RECOMMENDATION: The U.S. Mint should take a more active role in providing the public with consumer alerts regarding any of its products that may be subject to questionable marketing practices in the secondary market.

Today there looms another potential for equally misleading marketing. Currently the U.S. Mint does not use a Mint mark on any of its bullion coins intended for the investment market. While it is true that many of these coins are sold as commodities, there is also a healthy collector market in the bullion coin versions. In the recent past, most of these coins have been produced at one facility. However, due to the continued unprecedented demand for American Eagle silver bullion coins and an increased numismatic production load at the West Point Mint, some silver American Eagle production is being shifted to the San Francisco Mint.

The 2011 production will be the first time in more than a decade that American Eagle silver bullion coins will be produced at both the West Point and San Francisco Mints. American Eagle silver bullion coins were produced at both facilities from 1989 through 2000 inclusive. All American Eagle silver bullion coin production was moved strictly to the West Point Mint in 2001.

It is quite predictable that today’s marketers will seek ways to identify those struck at San Francisco and claim they are somehow different or special, based on the shipping boxes or packing slips.

RECOMMENDATION: The U.S. Mint should place Mint marks on all of its bullion coins to identify the Mint of manufacture. Such would preclude misrepresentation and possible fraudulent practices in the marketplace.

As the costs of collecting Mint products continues to rise, it would be helpful if the U.S. Mint would offer as a standard option for all of its bullion coin products the ability to obtain in protective plastic capsules without the presentation “gift” boxes. The box packaging is bulky and costly to store. The majority of coins purchased for collections are removed from their original Mint packaging and are quickly encapsulated as part of the grading process.

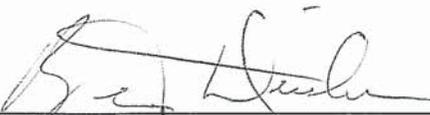
RECOMMENDATION: Create a standard protective capsule option for housing all collector versions of bullion coins.

Thank you again for the opportunity to testify. I would welcome any questions you may have.

United States House of Representatives
Committee on Financial Services

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