

A Conversation with VAN SIMMONS

President, David Hall Rare Coins

Tales of the Collectibles Trade

An Insider Talks About the Rewards and Pitfalls of Collecting and Investing in Rarities.

I've been skeptical of collectibles as investments for many years. The last time I discussed them in this newsletter was back in the early 1980s, more than a decade ago.

When analyzing value, my guiding principle is that the price of anything gravitates toward its "utility" value—that is, the price people are willing to pay for the use they expect to get from an item.

What is the "use" of collectibles? The only use for a rare coin, stamp, or piece of art is the pleasure its owner gets from looking at it or displaying it for his friends—the premium paid for its rarity is a pleasure/prestige premium. When collectors alone dominated the market for most collectibles, as they tended to do up through the 1960s, prices for rarities were modest and grew slowly as the number of collectors gradually expanded. The inflationary surge of the 1970s created demand for "tangibles" and investors discovered collectibles. Prices skyrocketed. It was clear to me that this was the beginning of volatility in collectibles. Since then, prices have risen and fallen in waves. In the past four years or so, rare coin prices (to zero in on the most organized market of the collectibles) have plunged.

Now, however, the bottom is nigh. Once again the market is dominated by collectors instead of investors, and the time has come to buy. At least, that's how it appears to me after a recent long conversation with friend and collectible's expert Van Simmons.

If you attend any of the major investment conferences, you'll usually find Van standing in the David Hall Rare Coins booth, chatting amiably with one of his many friends. If you stop at the booth, don't worry about getting pressured about coins—unless you bring up the subject, you'd have a hard time figuring out that he's in the business.

If you do induce him to open up about rare coins or other collectibles, get ready for a unique experience. Van is an engaging storyteller whose adventures in the collectibles markets span almost his entire life and encompass all types of rarities. Ask him about anything from antique golf clubs to Gatling guns and get ready to be thoroughly entertained.

Although his passion for collecting has made Van an expert in many types of rarities, his central interest and expertise is in rare coins. As President of David Hall Rare Coins, Van heads what is probably the largest rare coin company in the country. Beyond simply buying and selling coins, he and David Hall, working together, have profoundly changed the structure of the rare coin markets throughout the world.

In February, 1986, Van and David started the Professional Coin Grading Service, PCGS, a breakthrough idea for standardizing the grading of rare coins. Today, as the company comes up on its 10th anniversary, rare coins that have not been graded by their in-house numismatists and sealed in distinctive PCGS plastic cases are all but unsaleable. Van and David have literally revolutionized the rare-coin industry.

Recent discussions with Van have convinced me that the rare coin market is approaching an historic turning point. Not only are rare coins at the bottom of a withering multi-year bear market, there are credible rumors in the air that large sums of money may be poised to enter the field.

I just finished spending a leisurely afternoon with Van, exploring the world of collectibles and in particular the rare coin markets. I think you'll find the following interview very pertinent to your investment planning.

JP: Van, although I've been a bear on collectibles as investments, your house is full of them. You know the collectibles market better than anybody. Tell me what I'm missing.

VS: If you want to understand collectibles, stop thinking about them as investments and think of them as pieces of history. Most people that I know buy collectibles for the pleasure they get from owning them. I know I do. I collect everything, old cowboy stuff, pocket knives, guns, French glass and everything else.

The guns on the walls, the knives, the oriental rugs—it's all stuff that I live with and I enjoy everyday. For instance, I have a Tiffany lamp in my office and everyday I sit there and look at it. Sometimes I light it up. It's pleasing to me instead of sitting there looking at bare walls, to look at a piece of art history. Louis Tiffany was one of the greatest artists in American history.

Collectors want to own something that was part of history—part of America, part of Japan, part of Europe, part of Germany, etc.

JP: We collect memorabilia from our own lives in the same way—the photos from the family and all the little mementos of our past. Surrounding ourselves with artifacts from the history of the nation or culture connects us to our place in time.

VS: That's one of the things I really enjoy about coins. American coins, in particular, happen to be one of the areas that offer little pieces of real American history. For instance, I just sold a 1792 half dime ...

JP: A half dime?

VS: Right. It was the first United States coin minted. Shortly after the United States was formed, Thomas Jefferson and George Washington decided that the United States should mint their own coins. In 1792 Congress passed statute #1, the first law authorizing United States coinage and the 1792 half dime was the first coin off the press.

They authorized 1,500 coins, but when they got ready to mint them they realized that because of the big silver shortage they didn't have enough silver to make the coins, so George Washington took Martha's silver tea set and had it melted down to make them.

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Back then they didn't have machinery cranking these things out, everything was made with hand presses so it is really a unique coin. This is truly one of the great pieces of American history. Some of the coins went into banks. Some of them were given away as gifts to foreign royalty. Very few have survived.

A collector called me and asked if I want to buy one. It wasn't cheap—it was like \$80,000—but it was in mint state 65 condition, a very high grade. This one had been untouched. It's been in a collection since 1792—it had never been in circulation.

When I bought that 1792 half dime I knew exactly who I was going to call. I called him and said "I've got a coin for you," and he goes, "I don't have any money." I said, "It's \$85,000." And he laughed and he said, "I don't have any money." I said, "Let me tell you what I have." He said, "I don't want to hear it." I said, "Okay, I'll fax you a description." I fax it to him and within three minutes he calls. He says, "Ship it." I said, "I thought you didn't have any money." He said, "Yeah, I know."

He has spent a lot of money with me every month for the last four to five years. Some coins he will buy because prices are down and he's cost averaging in, and in that sense it's an investment for him. But he loves what he's buying.

Of course, you don't have to buy \$85,000 coins to get history.

I was at an antique gun show in June and I walked by and here were these antique 6-inch high, little kids' cowboy boots. I thought those would really be cute for my son's room or my gun room, or my cowboy room or something. And I said to this guy, "How much are these?" "He said "\$450". I pick them up and look at them. They have little antique square nails in the heels and little copper toes. He said "Yeah, it's dated on the front that they're from 1892 and that's why they're so much money." "What's the least you'll take?" And he said "I'll take \$400."

So I bought them for \$400, thinking all the while that I must be nuts. I will probably never get my money out of them, but they were really neat looking. So I got out my magnifying glass and I was looking at them, and they're dated September 11, 1859, prior to the Civil War. These are really old little cowboy boots. Forty or fifty years in the 1800's makes a big

difference.

A couple hours later I was talking to the guy that I bought them from and I told him they were dated 1859. He said, “What do you mean? They’re 1892, the guy I bought them from told me.” I said, “Did you look at them?” He said, “Yeah, but I couldn’t read the date.” So I said “Look”, and showed him under magnifying glasses and he looks at them, and says “I can’t believe it—I’ll pay you \$800.” I said, “I didn’t buy them to sell them, I bought them because I like them.”

One of the main things that I found in collectibles is that you have to always buy what you like, and if you like it, there’s a reason somebody else would like it. After I bought them for \$400 four guys came by and say “did you buy those from Mike?” And they said, “They were so cute, I wish I had bought them.”

Anyway, different things have a lot of historic value to certain people. Baseball is a big deal to some people. Football is a big deal. Some people collect cigar labels. Some people collect cigar boxes.

JP: You’ve shown me parts of your gun collection. Do you collect them because you love guns and hunting, or because you love history?

VS: Both. Believe me, they are really part of American history.

For the last fifteen years, I’ve dreamed of owning a particular 1876 Winchester. They only made 10 or 15,000 of the guns and to find one in mint condition just doesn’t happen because back in the 1800’s they were tools. They used them, they hunted with them. One of the original ads for the Henry Rifle put out by Winchester—I’ve got a copy of it—says: “For Indian, Bear or Buffalo Hunting, this gun is unsurpassed...” They classified Indians right along with bear and buffalo...it’s a crackup.

I went to this Las Vegas gun show. This guy stops me out front and he goes, “I’ve got a gun for you to buy.” What do you have?” He said, “I have an 1876.” I said, “Well, that’s not for me, I only buy mint guns.” He goes, “It is mint.” I said, “No it’s not.” He said, “Yeah it is.” So I walk over there and he pulls this gun out from underneath the table and it’s brand new. I said, “What do you want for this?” He goes, “\$42,000.” I said, “That’s a lot of money. Let me think about it for a couple hours.” So I looked around and figured out to me it was worth like \$27,500 maximum.

So I ended up offering him \$27,500 cash and he took it. I’ve had it for several years and a lot of collectors have flown in and just wanted to see the gun. In guns there are about ten guys who have all the money in the world and who want great Winchesters and great Colts. Two of the guys represent their own foundations, and they’ve been spending \$30-40-50 million dollars apiece buying great guns. They have run the prices up on them.

One guy who is rich and who just wanted to buy great guns called and said, “Can I come over for dinner?” I said, “Sure”. So he and his girlfriend came over and he said, “Why don’t you show me your ’76 that I’ve heard so much about.” So I dragged it out. It’s one of these guns that when I look at it takes my breath away. I figured I would die with this gun. There is no reason to ever sell it, because at \$27,000 I have no downside and the gun is probably worth \$50,000. He asks “What’s this gun worth?” I said, “I don’t know, \$50,000, maybe \$55,000.” He said, “Well what’s the end of the world?” I said, “If a dealer had one he would probably charge \$60,000 but he’d know he was just burying you.”

One of the original ads for the Henry Rifle ... says: “For Indian, Bear or Buffalo Hunting, this gun is unsurpassed...” He goes, “Would you take that?” I said, “No, it’s not for sale.” He said, “Everything is for sale with you.” I said, “Not this.” I’m holding it and I say, “You don’t understand, I never thought I’d own this gun. In my mind it’s the finest one in existence. I will leave this to my sons. This is just one of those things I will never sell.” He goes, “I’ll pay you \$(omitted) cash.” I said, “I hope your kids enjoy it more than my kids.”

JP: So much for sentiment.

VS: That’s right, but there comes a point where you have to sell most collectibles. If you don’t, you end up dying and your kids sell them at a garage sale for \$200. Of course, this doesn’t hold true for rare coins. There is such a developed, active market that they never have to be sold at a garage sale.

JP: So money does drive the collector.

VS: Sometimes but not always.

I just had a guy call me, he says, “In *Sports Illustrated* there’s a picture of the first bonus check that Mickey Mantle got

for signing with a baseball team in New York. Do you know where it would be?" I said, "Well I seem to remember that, let me do a little checking." The next day I remembered that a broker I knew had offered me that deal a year ago. So I called him. It turned out that it was Mickey Mantle's first contract and the bonus check, both. But he had just sold it for the owner to someone who was a small percentage owner of the Yankees. This guy paid \$50,000 for the pair, which really doesn't sound like a lot to me. So I said, "Boy, that sounds pretty cheap." He said, "You know something, I told the seller I was representing that the pair was worth like \$150,000, but he insisted he wanted to sell it to this guy." I said, "What is he, nuts or something?" He said, "Well, he's 92 years old and he's had them since 1949. He was the guy who worked at the team and had gotten Mickey Mantle to sign ... he wanted somebody from the Yankees to buy it."

JP: Money had nothing to do with that one.

So, tell me how you got involved in collectibles.

VS: I remember. I was five years old playing in the ditch behind my house and I picked up a white quartz rock with green algae through it. I thought, "I'm going to collect rocks. They're really neat." So then I would go to Knott's Berry Farm and buy little agates and do stuff like that.

When I was about seven years old, I was at Woolworth's one day and they had a thing where you could buy a whole bag of 800 stamps or something like that for 99 cents or \$2.00 or something, which were just trash stamps. But I bought one, and thought you know I'm going to collect stamps, they're really neat.

Some people, like me, have it in their systems to be collectors because they like things. I like everything. You've seen all the stuff I collect, it's just stupid. I mean, I look at it and think, why did I buy that? I don't know, but I really like it. As far as how I got started as a collector, I think I've just always been one.

JP: But what about buying collectibles as investments? To make them go up, they have to be good values when you buy them. As soon as investors pour into the market, the price gets driven way up above what the collectors have been used to paying.

VS: When investors enter the market, prices do rise above what you refer to as "utility" value. When they get out, prices drop. For the past 15 years or so I have been able to tell tops and bottoms of the market by the calls I get. At market tops 85 to 95% of my calls are from investors. At market bottoms 85 to 95% of my calls are from collectors.

Right now the calls are almost exclusively from collectors. Coins are so cheap that I am buying for my own collection. I just bought a Trade dollar the other day for \$11,000. Three to five years ago it was selling for \$40,000 and I couldn't afford it. Today at \$11,000 I can put it away for my son.

JP: One of the things that soured me on rare coin investing was watching many of the advertisements for "rare" coins where I knew the markup were simply obscene. If a dealer marks a coin up 50%, the investor has to wait for the market for that coin to rise 50% before he breaks even.

VS: Back in the 1970s wide spreads and obscene markups were common. Not so much, anymore, thanks to a lot of innovations that we introduced.

Today, the spread on coins usually is modest—anywhere from 3-10% depending on the coin. If you buy coins such as silver dollars, let's say MS65, we tend to buy them for like 98 and sell them for 102, 103, 104, or 105 depending on availability. Rarer coins usually have a spread of 15% to 20%.

The spread problem was rampant when dealers wouldn't give both bid and asked prices. We introduced the first bid ask market in 1983. If you called and said you were interested in 1881 silver dollars and asked where the market was, we would say we're buying at \$90 and selling them at \$100. Do you want to sell some or buy some? That was never done in the coin market and it blew the other dealer's minds. All we really did was show customers our spread. We're being as up front as we can be. Here's the front door and here's the back door.

JP: But wide spreads were not the only danger to investors. Grades were, too.

VS: Spreads were just part of the problem. Most of the dealer abuses occurred back when every dealer was applying his own grades to coins.

Throughout the collectibles boom of the late 70s everybody bought over-graded coins. By 1984 the market was down

so the standard was tightened. Dealers who had sold coins as MS65's were now calling them MS63's and saying this changed and that changed. But there was a small group of dealers, six or eight, who we trusted. We could buy from them with confidence. If they said a coin was MS65, there was a 95%-99% chance that coin was going to be exactly as described because we had similar grading standards.

When people recognized that our grades were legitimate and consistent, we were inundated. Everyday I came to work I would have stacks of messages.

JP: Standardized grading was something that was clearly needed. So somebody got the idea that it could be done. That was you, wasn't it?

VS: David suggested we start a company and get six or seven of our friends who all grade coins like we do and then set a standard between us. This would allow people to buy coins confident that the grade has been agreed on by the top graders in the business. We decided to call the company Professional Coin Grading Service, or PCGS for short. It took us two years to open the doors. The six guys were recognized as six of the top ten authorities on rare coins and as soon as the doors opened every coin collector was basically saying, "Hey wait a minute. If they grade it that way, that's correct. I want to buy that coin." Within 60 days after PCGS opened, you couldn't sell a coin unless it was in a PCGS folder, so within the first 30 days PCGS was in the black.

In fact, within 60 days we were backlogged 3-4 months. You would send a coin in and it would take 3-4 months to get it graded because we couldn't get enough graders that we trusted. It was just a mess. It caused big cash flow problems in the coin market and that ran the whole market down from 1986 through 1988.

JP: So just the fact that you started this grading service actually affected the market?

VS: Tremendously. In the days prior to PCGS dealers would spend hundreds of thousands of dollars at an auction or at a coin show and get 30 days to pay. They would then turn around and sell the coins in order to get the money to pay. Once PCGS was in business they found that they couldn't sell the coins until they'd been graded. So then they sent them into PCGS but couldn't get them back for 3-4 months. It ended up creating a big cash flow problem for these dealers. We started PCGS in early 1986 and it took until about 1988 or so for things to settle down.

In ten years since we opened we've graded over 4 million coins with a declared value of over \$6 billion.

JP: Eventually, all rare coins may wind up in PCGS folders.

VS: We've just scratched the surface. Take the 1881 silver dollar, for example. The San Francisco mint produced 12-13 million of just that one date of that one denomination and that was just from that one mint. There are hundred of examples like that. In 1876 something like 18 million quarters were minted. There are millions of coins out there so PCGS has a very long lifespan.

By 1988, PCGS became so well known that you couldn't sell a coin unless it was graded. At that point we decided we would set up a computerized trading network. We set up The American Numismatic Exchange and the coins started trading in PCGS holders on this system. It became very successful.

JP: How does it work?

VS: Just like a stock on NASDAQ where you can call and ask the bid. They'll say there's a bid for 45,000 shares at \$2.95 and there are 8,000 shares available at \$3.00.

You punch in a coin number and it shows on the screen in different grades, 45-70. It shows the seven highest bids and the seven lowest asked and the last trade. For example, the quote for a St. Gaudens MS-65 might show one bidder for 3 coins at \$1,000, another bidder for 5 coins at \$990, another for one coin at \$985, and another for 50 coins at \$980. In other words, the bids are shown along with the amounts that they want.

It was a great deal.

JP: So, you and David have solved many of the problems plaguing collectibles investors.

VS: The collectibles market still has its nightmares.

The other day. I bought a Henry rifle—Henry rifle is the first rifle made by Winchester and was made during the Civil War. I bought it from an art dealer who had bought it from a collector. This gun was like brand new, mint condition. I met

another dealer at a show who was looking for one. He said, “I can get you \$35,000 for that gun.” Well, there comes a time to sell everything so I ended up selling the thing to the dealer for \$35,000. Well the guy sends it to a metallurgist and finds out the metal is only 20 years old, not 120 years old.

JP: So it’s a counterfeit ...

VS: Counterfeit from one end to the other. Yet every collector who saw this gun swore it was authentic. They have people who will make guns like that, counterfeit them so perfectly that all the big collectors couldn’t tell. They tracked this one all the way back to a dealer in Colorado.

JP Who took the loss?

VS: I got my money back, the art dealer got his money back, the collector got his money back from his dealer, the dealer took it back to dealer in Colorado and he got his money back, and nobody knows where it went after that.

JP: That is amazing. Counterfeit coins must be an enormous problem for you.

VS: Not so. With coins, you can tell the counterfeits because everything is basically done with microscopes and magnifying glasses and there are certain metal flows in the metal. The numismatists who grade them are experts—the guys at PCGS make anywhere from \$20,000-\$30,000 a month grading coins.

Moreover, in the case of U.S. coins, you’ve got the U.S. government protecting you against counterfeits. For example, a 1792 half-disme is still legal tender so if you get a counterfeit the federal government will step in.

JP: And they’ll confiscate your coin and nobody gets paid off.

VS: Exactly. So always buy from a reputable dealer who will stand behind the goods, or buy at auction. I think the most undervalued area of the market right now is 19th century “type” coins such as the 20-cent piece, the Liberty seated dollar, proof Morgan dollars, etc. People started collecting one of each type, so they’re now called 19th century “type” coins. It’s the rarest area of the market and also the most underpriced right now. It’s always been the top performer in coins. In collectibles the most important rule is to always buy high quality, unless it’s something that it’s really, really rare. Always try and buy the best.

JP: So, how does the average investor take advantage of a coming boom in collectible coins without getting hurt?

VS: There are only two ways for people to buy coins and not get hurt: they either learn everything about the product that they’re buying, or they deal with somebody that they know isn’t going to rip them off. Face it, there are good coins, there are bad coins, there are real collectible coins, there are mediocre collectible coins, and there are junk coins.

They can learn values, they can learn about coins, there’s a lot of stuff they can read.

If they’re going to learn everything, they’re going to know auction values so that they can go to auctions and bid and know that they are not paying too much. Have you ever seen our book “*The Mercenary’s Guide to the Rare Coin Market?*”

JP: Right. On the cover there is a photo of you and David holding guns.

VS: Tell your subscribers I’ll send them a free subscription to my newsletter and a complementary copy of the book. If they read the book they’ll say, “Now I understand what the coin market is all about.”

JP: Van, thanks for sharing your experiences with my readers.