

How Coin Dealers Make Money

by [Michael E. Marotta](#)

Bofoyo@aol.com and others on rec.collecting.coins have bemoaned the spreads between buy and sell. Dealers charge more than double of "Trends" for material that they will not buy except at half of "Trends" because they have no market for the coins. This infuriates collectors.

The blame lies with public education. Public education is modeled on parochial schooling, of course. Neither the moochers of Bleeding Heart Academy, nor the looters of Franklin Kennedy High understand the free market. This is why graduate schools beg entrepreneurs to establish seminars in business. Schools train employees who consume. They do not create entrepreneurs who produce.

Naive coin collectors think that Greysheet, Redbook, or Trends are like the fliers of grocery stores. Your IGA Store says that they will sell 12 ounce Campbell's Chicken Noodle Soup for 89 cents and you go in and you find it on the shelf and if it is not that price (or less), you can raise a fuss.

I know a coin dealer who, when someone waves a Greysheet at him, says, "If Greysheet will sell it to you for \$45, go buy it from them. This one is \$60." (Or: "If Trends will pay \$30, go sell it to them. I pay \$25.") Greysheet and Trends and Redbook and Blackbook are just *opinions* of people who are far away and not willing to put their money on the line. The IGA really has soup for sale. The Coin Dealer Newsletter does not actually have coins for sale.

If this makes you angry, direct your anger at the teachers and professors who did not explain to you that *past* prices are *irrelevant* in *today's* market.

Businesses and individuals *plan* for the *future* -- and, this is risky. Governments live in the *past*. Governments exist to rectify *past* injustices by punishing lawbreakers. The agoric way to deal with crime is to *prevent* it. Watch an insurance commercial and you will get the idea. Greysheet and Trends are the results of "govern-mentality" in numismatics.

A coin dealer makes money -- literally makes it from nothing -- by knowing people who *want* coins. The dealer sells these people the coins they want at a price they are willing to pay. These collectors will only pay *less* than they think the coins are worth. To get coins for these customers, the dealer must know many other people with coins. And to buy their coins, the dealer must offer them *more* than they think their coins are worth.

These are basic facts of economics that apply to all transactions. (See, for instance, *Human Action* by Ludwig von Mises.)

Greysheet, Redbook, etc., are only summary approximations of past activities. Some silver dollar is listed at \$240. A certain Half Eagle is listed at \$250. They were recently evaluated at about equal relative supply and demand by the dealers anonymously reporting to the publisher. That is it. A dealer can -- and usually does -- have thousands of "rare" and "valuable" coins. Without customers to buy them he will go to bed hungry.

Therefore, dealers minimize their risks. The lower the risk, the narrower the spread between buy and sell. That is another fact of the marketplace. Collectors are shocked to discover how little their coins are really worth -- or how hard it is to sell them. Any collector who wants the full retail price for their coins should rent a table at a show or pay for an advertisement in a periodical. A taste of this will make the dealer's offer seem sweeter.

Collectors fall in love with the objects of their passion. The collector is not rational or objective or patient. Therefore, the collector cannot understand why "everyone" does not want the same coins he did when he wants to sell them. He did not see those coins languishing in a vault for years and years before he bought them.

Why does the dealer not sell the coins cheaper to get rid of them and make his money by turning it over more often? First of all, the dealer sells the coins as cheap as he has to or he cannot sell them at all. Secondly, he has to replace the inventory, so he cannot sell for less than replacement cost -- and collectors demand top dollar for their material. Third, he is in no hurry to sell, so the present time utility is less for him and the future value is greater. Fourth, dealers are greedy, grasping, clutching, money-grubbing scavengers who would rather puke up their lungs than sell a coin for less than they paid for it -- as is their divine right. The collector also enjoys this same right. How the dealer runs his shop is his own business -- and none of yours, if you please, thank you.

As denizens of cyberspace, we all hate spam. And we really hate phony get-rich-quick schemes.

Yet, the coin dealer is subjected to dozens of such offers each day. Collector spam takes the form of yet another assemblage of common coins for which the collector wants uncommon prices. Or, worse, it comes in the form of some oddball rarity with little or no demand. Each collector presents the same get-rich-quick spam: "If you buy these coins from me, you can sell them at a great profit." Well, if these coins are so profitable, why does the collector not sell them to another collector at retail?

The coin dealer lives in a world of risk. Risk is a numerical fact with measurable dimensions. If it is likely that you will lose money, then chances are that if you risk your money, you will lose it. The fact cannot be argued or begged or commanded or prayed away. The coin dealer lowers his risk with information. He knows coins. He knows people. He makes his

money by serving as a conduit between the people who have coins and the people who want them.

However, unlike Wheat or Butter, coins are not a homogenous commodity. They are *graded* by time, place, type, wear, and defects that appear only with a microscope.

Coin collectors will not accept a coin of "equal" value in place of another. Try telling a collector of Walking Liberties that the 38-D in VF can be matched with a Tibetan 1 Sho from 1820 Craig 83. After all, they have the same retail value according to the Standard Catalog of World Coins. Then, try explaining to the collector with the Tibetan Sho why his coin is not worth the same price as the 38-D Walking Liberty.

The coin dealer will attempt to forecast the future. He will offer a price that acquires the material and still minimizes his risk. After paying for the coin, he will still eat and stay warm even though he has less money than he did before he bought the coins. The dealer will wait for a collector whose passion commands him to acquire the coin at any price.

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