



## **The Curious Collector** by Len Augsburger, LSCC #1271

### **Think Like a Dealer**

Recently, I asked a dealer if they would represent me at an upcoming auction of some (non-Liberty Seated) coins. This was specialized material and I had no problem paying a few percent over hammer for his expertise, as he knew the area far better than I. The dealer declined, responding that he was bidding on the same coins for his own inventory. I could only congratulate myself for sensing the same buying opportunity as this highly respected dealer, but of course that results in no coins for my collection. Still, the exchange sheds light on the current market. While collectors can buy and sell at leisure, dealers have a constant need for fresh inventory, and, if their usual sources are drying up, they have to compete at auction just like everyone else.

In the pre-Internet era the situation was somewhat different. Auctions were more wholesale type affairs mostly attended by dealers. Dealers could stock up, return home, and apply whatever margin they needed to cover expenses and payroll. Prices realized data lagged considerably, with only bits and pieces reported by the numismatic press. Once a year you could buy the Krause "Auction Prices Realized" volume, an important source of market information during the 1970-2000 period. The power of this book was demonstrated early to me in my collecting career – this happened around 1990 in a local coin shop. A fellow Liberty Seated quarter collector, in order to make a point, asked the dealer to look up auction appearances of the 1871-CC quarter for the previous year. Only one or two listings were found, and a couple lessons stuck. One, that some coins were truly rare, and two, that you needed to learn where to look for information. Thereafter the Auction Prices Realized annual became a required purchase every year. Still, most of the data in the Krause book was about 12 months old by the time you got it.

Fast forward to today... Auctions prices, like the stock market, are reported instantaneously, and it is widely known how much a dealer paid for the latest widget in inventory. I've heard at least one dealer complain about it. How are you supposed to make money, the thinking goes, if everyone knows how much you paid for something? Well, apparently the market is figuring out how to do just that, judging by the large number of dealers who continue to set up at national shows. The truth is that collectors are willing to allow working margins but not obscene profits. If a dealer attends a sale, looks over lots carefully, and bids on their own account for a coin, chances are that it's a decent purchase, though to be sure dealers make mistakes too. Still, the dealer has added value to the equation by looking at all the chaff in the sale and picking out the best pieces. That's worth something – 10% is reasonable, 40% is not.

As a collector, you can go a couple ways here. You can buy out of dealer inventory, knowing that you'll pay a "finder's fee" for an auction coin. If you trust the dealer's eye, it's not the worst way to go. The alternative is to go head-to-head with the dealer at auction. The advantage is that the dealer needs to flip the coin fairly quickly, while the collector has the luxury of holding a coin indefinitely and is less concerned with immediate profit. This gives you some room to work with. A dealer might see room for margin if a coin is hammered at \$1,000, but not at \$1,100. If you really want the piece and like the long term value, \$100 may not

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be a big deal. Even better, if you can land on the \$1,000 bid before the dealer does, you've nailed it. I once saw a dealer hit the underbid at several lots in a row at auction – only to be outdone by a cut bid in each case. Although unsuccessful, this was actually quite a demonstration of bidding prowess – the dealer knew exactly where the market was on each of these coins.

The disadvantage of competing directly with the dealer is that your knowledge of the market generally won't be as good as the dealer, who is doing this for a living. The best way to evaluate this is to buy and sell coins yourself – if you can do this on a small scale and demonstrate profitably, that's a good sign you needn't rely on other folks to evaluate coins. Why pay the dealer's margin if you don't have to? My own observation is that collectors who have moved along this curve are more successful over the long haul, and derive significantly more enjoyment from the hobby. It doesn't mean you outduel the dealer every time, but it does mean you have consistent success.

Note, some dealers simply don't buy out of auctions at all. They've developed their own trading networks with other dealers, or have large client bases who also represent a good source of coins for inventory. This isn't going to change, and it's important to realize that behind the large public auctions there is a substantial amount of private trading. It's harder to characterize this activity, because it is, by definition, private.

You can look at dealer's fixed price lists, but that's a loose guide. Published prices get negotiated downward, and favored clients may get better terms than casual collectors. The best way to gain insight into this realm is to effectively become a dealer, at least on a small scale. Trade with fellow collectors, dealers, and develop your own contacts. Coin clubs are a great place to start, and I'd be remiss to not mention the Liberty Seated Collectors Club in this regard – it's a great place to form connections.

I haven't decided what to do about the upcoming auction coins – I won't be able to look at them myself or get a trusted advisor to do the same. In this case it may be best to see what shows up in the inventory of the usual dealers, and then decide whether I want to pay what amounts to an additional bid in the auction sale. It's an interesting dynamic – I might have had to pay the same price at auction, but this way I get a return privilege along with the knowledge that the coins are already vetted by an expert. Check with me at the next LSCC "show and tell" to see how it turned out!

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