

Systemic overgrading and how it effects coin values.

I have written about the problem of overgrading for many years now. In 1996, I began a service called Photo Seal to fight against the problem. In small ways it has helped control the problem within the Flying Eagle and Indian cent collector community, but we are now closing in on 30 years of certified grading. Over the years we have seen an ever increasing amount of coins being certified with grades that can only be described as being overgraded. These coins do not disappear from the market once they are graded. In fact they tend to have a multiplying effect on the number of coins seen in the market. Once graded, they are placed in the marketplace, usually at auction. There they tend to sell for below market prices. The original submitters reap their profit and from then on they are traded at a discount. From auction to eBay to dealers inventory to eBay again and then back to another auction, never finding a final resting place. The real problem is that each public sale is a lower data point for the price guide editors.

The grading services - PCGS and NGC, are both in a business model of ever decreasing returns. They are fighting for submissions. The more coins they certify, the less coins there are to submit. This is the law of diminishing returns. If standards remained fixed and equal between grading services and the same standard were applied to coins year after year, soon there would be no reason to resubmit an already certified coin. There would be no incentive to crossover a coin. There would be no incentive to choose one company over another.

To keep coins being submitted they have used all types of revenue enhancement strategies to keep coins being graded and regraded. This is business. They walk the line between respect and ruthlessness as in any corporate culture. As a submitter you want the greatest return for your coin. Most dealers would send a coin to whoever they think will give them the highest grade. This increases their profit. I think most collectors just want their coins

graded correctly. If a grading service caters to one group and give out gift grades to large submitters, they run the risk of alienating the other group who demand accuracy.

The problem now is that the majority (50% to 75%) of the coins in slabs are overgraded by the standards set by the grading companies in the 1990's. As a collector, you have to acknowledge the problem. There are two choices you can make in adding coins to your collection: buy the coin in the holder or buy the coin regardless of the holder. Your personal attention to quality does not fix the problem of these overgraded coins lowering market prices. It might even make it worse if there are fewer buyers of these coins.

The problem can only be fixed by the increased awareness that auction prices of just any slabbed coin is not the best way to record the market or determine the value of a coin. Auction sales must be judged on the quality of the coin. Is it properly graded or not.

So, what price is an accurate reflection of the coin being considered? It used to be that the price was a reflection of the dealer-to-dealer market where both buyer and seller had experience and knew how to grade. If two dealers agree on a price of a coin, it can be argued that the coin is correctly graded and correctly priced. There are a multitude of other factors, but the basic premise is there. From this price a reasonable mark-up of 10% to 30% is applied and a retail price, or "ask" is established. This is what used to be listed in the price guides.

Another way to determine a price is to use auction records. With the advancement of easily referenced auction records, this is the way most dealers and collectors determine an average price. The established printed price guides are now an afterthought. Although it seems on the surface a fair way to judge a market, it is, in the face of massive overgrading, a very destructive practice.



1877 AU50 PCGS (PS) February 2013 \$4,500 (Fixed price sale)



1877 AU50 PCGS July 2013 \$3,000 (Fixed price sale)

To show you the problem, we will look at one grade of one coin and show how overgrading has hurt the market. Lets choose the 1877 Indian cent in AU50 condition.

The proper grade is, and has been for the modern post Photograde era defined as “***Some original luster remains. Some marks. Obvious wear.***” The image on the previous page is a properly graded 1877 in AU50. This is a PCGS-graded and PhotoSealed, or (PS). My records show that this coin sold for \$4,500 in 2013.

This next coin is PCGS graded AU50 that I sold for \$3,000 a few months later that is not PhotoSealed. The reason is that I felt it was merely an XF40, not an AU. Notice how the lower hair curl is nearly connected to the ribbon? There is no original surface luster remaining. There is obviously a big difference in quality, which is the reason for the big difference in price. This reasoning is very easy to grasp. Confronted with this simple explanation of value it is obvious why one would want one over the other - quality and price. The \$3,000 coin might fit right in a collection where the \$4,500 was out of the budget. The \$4,500 one might have the look that the new owner had been looking for for years without luck, price is not the main concern.

I hope this clearly shows the wide differences seen in similarly graded coins. The date should not matter. The prices assigned by the seller, in this case, myself, were derived from research into what other examples of the same quality have sold for in the past. I did not use auction records. There is always give-and-take in arriving at a price and buyers should have a say in that process. If the established market for a (PS) AU50 is \$4,500 then the price paid by the dealer to acquire it should be in line with that as

well. Probably in the \$3,750 to \$4,000 range. This is a 25% to 12% margin. The non-(PS) coin above is an XF coin in a AU50 holder. It may have been bought for XF money (about \$2,500) because it is obviously not an AU50. To move it out quickly, it is offered at an attractive price for an AU50, maybe \$3,000. This would be a 20% margin. Both instances are the correct way to evaluate the coin based on the quality of the coin, not the grade on the holder.

Now if these coins were sold in auctions, they would probably bring between \$4,000 for the (PS) coin and \$2,700 for the non-(PS) coin. Auction buyers are usually pretty savvy and they don't stretch on a coin unless it is something special. The first coin shown is special. It would be a great coin to own for a collection of AU Indian cents. If it sold to a dealer, like me, I would hope to be the winner of both pieces at the prices stated above, although I would much prefer to buy the first one for \$4,000.

This is hypothetical, as both coins were not acquired in auction. If put then in an auction, we don't know what price they would fetch. If no one bidding knew that the market for a properly graded AU50 was \$4,500, then they might think that anything over \$3,000 was too much. Why would they let it pass for so little? Auction records. Lets look at some actual auction records. The sales I list here are the only sales I found of 1877 Indian cents in certified holders graded AU50 over the past few years. Very few have sold so we have to go back to 2012.



Lets look at more 1877 AU50 Indian cents from auctions in 2012. None of these have any acceptance stickers from CAC or (PS). This may mean they were sent in and rejected, but we can't be sure. To me, they both look overgraded. At that time the PCGS price guide showed \$2,950 for AU50 and Coin Wold trends was at \$2,750. These sold for a bit below these prices. Perhaps it was the lack of a CAC sticker or just the overall quality of the coins. What happens next is that the pricing guides report these sales as what they believe are true AU50 coins.

The \$2,585 and \$2,443 prices represent prices for XF coins because I think most people who actually viewed the coins think that they were XF coins in AU holders. These prices represent the real market for XF, but it is getting reported as prices realized for AU coins. What has happened next is that the market of AU50 has shifted from properly graded coins to overgraded coins. Now, the accepted market price for AU50 is \$2,500 to \$3,000 where it should be \$4,000 to \$4,500. Overgrading and pricing based on overgraded coins has lowered the price.



PCGS AU50
No CAC or (PS)



1877 AU50 PCGS November 2012 \$2,585



PCGS AU50
No CAC or (PS)



1877 AU50 PCGS March 2012 \$2,443

Here are more sales from 2014. By this time, the PCGS price guide was lowered to \$2,600, reflected by the sale of the two prior coins. Coin World trends still listed a price of \$2,750.

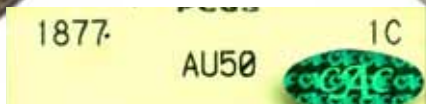
Both coins were PCGS certified long ago (over 15 years) and recently CAC accepted. They are decent coins, but not what I would call AU, even though CAC accepted them. The top one has dull surfaces which are not original. The other has good surfaces but too much wear for AU, but is a bit better than the others seen. These two auction results show that a value for these coins is about \$3,000.

It is simple to understand that when two PCGS/CAC AU50's, sell for \$3,000, the market says that is what these coins are worth. What is not easy to understand is that by standards in use since the 1990's these coins would all be called XF. The market for a correctly graded XF is \$2,500 and these auctions reflect that clearly, with maybe an extra premium for the higher grade on the holder and CAC sticker.

Paying \$4,500 for a properly graded AU50 is looking more and more of a stretch based on these auction results.



1877 AU50 PCGS (CAC) September 2014 \$3,055



1877 AU50 PCGS (CAC) August 2014 \$3,000





1877 AU50 NGC March 2014 \$2,232

We are seeing coins that are actually XF being systemically graded as AU50. Note that none of these have any detail on the diamond or original surface luster. Lets look at an NGC-graded coin now. This coin is the only recent auction I found of an NGC-graded 1877 in AU50. This is a low-end XF at best since it has heavy marks, no luster and a good amount of wear. It sold in 2014 for only \$2,232, which is obviously because of its low quality. Now that our eyes are accustomed to what is generally available as in AU50 certified holders, we should step back and ask ourselves, so what! What does this have to do with my collection?

It has everything to do with your collection, and the value of it. The 1877 that was shown at the beginning of the article that sold for \$4,500. That is the real market price for a properly graded AU50 1877. Would you pay \$4500 for it? Probably not, and the reason is a risk aversion and false equivalency.

We are trained to be risk averse when it comes to buying coins. We want to know that what we are paying is a fair market value. We don't like to be over charged. When we pay \$4,500 for a coin and put it in our collections, satisfied that our long search for that coin is over and then see the auction records for similarly graded coins selling for \$2,000 below what we paid, then I think we get a bit angry. To compensate, we may set our budget for the 1877 AU50 at \$3000. This is risk aversion.

20 years ago, I began to warn against judging equivalent value with similarly labeled coins in slabs. Others have too. Q. David Bowers, a charter Fly-In Club member has repeatedly written about Cherry-picking for quality. He would also remind you that you have to pay-up for quality when it is found.

Using only the auction records for one year, we see that there was no equivalent sale for a properly graded 1877 in AU50. How can you pay-up for quality when nothing is available? How can you evaluate the market when there are no sales of similar quality coins. Even the CAC accepted coins did not measure up, and the market has given great weight to that acceptance.

When we attempt to figure out the proper price of a coin, we use an equivalency factor. A true equivalency factor would be to look at the coins and judge the coins side by side and determine the proper value based on a past sale price of one of the coins.

A false equivalency would be to judge the coins based on the holders and the acceptance stickers they have or don't have. We see from the past auctions of AU50 1877 Indians that all had issues which kept the prices realized down. Now the market is accepting the value of these overgraded coins for the real value of a real AU50. Why? Lets look at the pricing guides.

Coin World trends lists an AU50 1877 at \$2,750, Coins Prices magazine at \$2,850, PCGS price guide at \$2,600 and NGC price guide at \$2,790.

The Fly-In club price guide (presented in this issue of Longacre's Ledger) shows \$4,500. From my point of view, if I were judging the market for all AU50 1877 Indian cents that I saw that really made the grade, I might say they should be \$5,500, because they are so rare. I haven't seen one for over a year!

From a collector's point of view, given what the pricing guides say, you might think that \$4,500 was an insane amount to pay and would never do it.

Now that we are clearer understanding on the true pricing equivalency based on actual coins and a false one based on holders, we should see the problem. We are faced with the entire market based on a different standard. Either we adhere to that standard or choose to ignore it.

The EAC long ago fought against this very problem. They stuck to a standard that was unchanging and unrelated to the slippery grading standards we call "market grading". It only works because all most EAC collectors abide by it. Most EAC dealers do to. Even auction companies list a EAC grade beside the certified grade.

If you apply market pricing guides to Large cents you will find out quickly that all you have been able to buy is a collection of low-end junk.

Are Flying Eagle, Indian cent and Lincoln cent collectors not caring enough about their hobby to see the problem? (Lincoln cents are not immune to this problem and should be grouped here as well.) From my perspective as a buyer and seller of coins on a standard that differs from the overall marketplace, I have found that in today's market I have a hard time buying properly graded coins and a harder time selling them for a fair market value.

Buyers are looking at equivalent pricing for vastly different quality coins. Who would pay \$4,500 for a coin that is listed at only \$2,600 on the PCGS price guide. And if you do buy it, who are you going to sell it to down the road? The next dealer will pull out his computer and show you the "real" market says \$2,600.

So, what is to be done. I have maintained a pricing guide for (PS) coins called the *Pink Sheet* since 1996, but have found that more and more, collectors are becoming a slave to the easy-access on-line pricing of auction prices realized. Collectors routinely use price guides based on auctions and eBay completed listings without comparing the actual coins. From my point of view, it has become very hard to buy properly coins and the work involved does not get rewarded by eager collectors waiting to buy them. They say the coins are overpriced.

I believe that when a properly graded AU50 1877 Indian cent finally gets to an auction, it will go for close to \$4,500. We'll have to wait and see. If I owned one I would be afraid to sell it at auction. The collectors in the general market do not see those coins enough to know what they are worth. I see barely one or two a year. If one did come up for auction and sold for \$4,500 it might be seen by the editors of the price guides as an aberration and then discarded as a data point.

The broad market in general mirrors what I have gone over using the 1877 AU50 as an example. It seems that all series have been systematically overgraded by all the grading services. This has dissipated any upward momentum in pricing they would have normally had if grading were consistent.

For example the pricing in the Greysheet lists an AU50 Indian Cent at \$2,175. In 2010 it was \$2,450. Has demand dropped so much for a coin that is actually quite scarce? The answer is systemic overgrading and a change by the editors of that guide from using dealer purchase data and bids to the easy route of looking at auction data. Prior to certified holders, when a dealer sold an XF 1877 as an AU he would only be overcharging one customer. The market would not be effected. Other dealers would not let this dealer get away with this with them, so by everyone using the same standard the dealer-to-dealer market was self-correcting. The value of an AU was known. Well-known. Now, with values based on certified holders of various quality, the data is very misleading.

When the grading services came along their mission was to stop overgrading and create a single unified market standard. They did this very well. At least for while. In the early 1990's I noticed that they were grading full red Indian cents very loosely. Coins with spots, coins that were red-brown in RD holders, and coins that were just plain ugly were getting grades that were not appropriate. Now-a-days when you come across a RB in a RD holder, you assume it changed. In my experience, most of them were graded wrong - overgraded to begin with.

So I started labeling the coins that I felt made the grade. Consumer protection, in a way. Market protection, is more like it.

By making a market in properly graded coins, I felt that I could counteract the problem. For while it worked. Prices for gem full red Indian cents soared. But the problem of a false equivalency arose. Only a small group of dedicated collectors understood the differences in the value between a properly graded coin and the overgraded coin in the general market.

With overgraded slabs becoming the majority of coins in the market now, prices are forced down. For AU50 1877 Indian cents, it has dropped. How many VF and XF 1877 Indian cents have been graded as AU50. The same is true for all dates. The same is true for all series. The market is now placing that \$2,500 value on what is in reality an XF coin!

I am now going to talk in general terms reflecting not just the 1877 Indian cent in AU50, but all series and the forces that are eroding their values. Recently StacksBowers acquired the 57th St. hoard. It holds a million coins in many denominations. In the recent Penny Wise, the journal of the EAC, 26,000 large cents were examined. How many Indian cents are in this hoard? 100,000 might be a low estimate. Anyway, these coins were all graded by NGC and are being sold at auction through StacksBowers, Teletrade and on their web site at fixed prices. From what I personally saw, not just Indian cents, but Large cents and other series, the vast majority are what I would kindly say were severely market graded. I put this observation out only to highlight an example and not to cast aspersions on the hoard, StacksBowers or NGC.

So in general, when one coin gets overgraded, the owner makes a bigger than normal financial win. When he sells it, he's able to say with a clear conscience that it is "correctly graded" because it says so. No auction is going to put in their description. "Looks like a grade lower to our eyes". They would not get a second consignment. So it sells rather cheap for the grade, but that is to be expected, since it was not an "A" or "B" coin..

In fact it should sell for the grade the coin actually is, not what the holder says. That is what happens, over and over and over again. And the price guides pick up on that. Soon they notice lower and lower prices at auction for these certified coins. The market prices drop. Collectors are now thinking they paid too much for their carefully selected coins. Apathy sets in and many may even put their cherished coins away. They certainly won't be thinking about bucking the market trend, would they?

As Indian cent enthusiasts we must recognize the problem. By using the grading standards presented elsewhere in this issue of Longacre's Ledger, and the pricing guide that goes with it, we can defend against the mass of overgraded slabs. We need to think of this as Fly-In club grading. If we allow the grading corporations to continue to erode the value of your collections through overgrading, then the end result is lower and lower prices, increasing collector apathy and a disintegration of the hobby.