August 13, 2010 – Great Questions

Great Questions

I received a good number of similar questions in response to some recent articles. I had been answering them individually, but can see now they should be addressed publicly. Two words about asking me questions related to what I write about. Don't stop. If I don't answer, either privately or publicly, ask again. I write for the main purpose of getting my points across. You don't have to adopt what I write as your own core beliefs, but you have a right to understand what I am advancing. If you don't understand something I've written, that's my responsibility to remedy, not yours. We can, hopefully, fix that by your questions.

In essence, you are paying tuition for an education about a special topic in which you are making a serious financial investment. I know you are motivated to learn as much as possible, making you the best students of all. I try to be as brief as possible (believe it or not), because I don't want to cross the line and blabber on. But perhaps I am too brief at times. If I say anything you don't fully understand, you must let me know that by asking for a fuller explanation.

Ted,

Thanks for your posts as always. I have a couple of queries for you from the last missive entitled "The Latest Smash" and another 2 more general ones. Sometimes your necessarily shorthand description is not always easy to follow especially when exasperated for you are invariably describing activities that are illogical/counter-intuitive/illegal and contrary to common sense! Here goes:

1. "As always, the commercial traders banded together and *pretended to sell* massive numbers of contracts (emphasis on pretended) on the electronic market"

Ques 1: What does it mean to "pretend to sell"? Are you referring to JP Morgan taking out lots of in-the-money option calls at a lower silver price to the strike price which they can close out before expiry and so never actually buy the silver (at the lower price)? Or what, I am confused!? Can they cancel short futures contract sales before expiry?

Knowing how and when the technical will sell, the commercials then, in a predetermined and cohesive manner, *withheld the bids* on the thousands of silver contracts they wanted to buy from the tech funds.

Ques 2: "withheld the bids"……….what does this mean. Either you buy or sell don't you………………..??

Ques 3: I found your response to the questioner who asked how JP Morgan can reduce its short exposure without a rise in price very helpful but I still do not really understand that either…..any further elaboration on that would also be much appreciated. You said *"This buying by JPM both on the downside and to the upside is what enabled them to reduce their short position by a third"* but presumably only if buying more than they sold……and then why no increase in price?
Ques 4: Also since the manipulation is illegal why is there no enforcement from the FBI or Dept of Justice – even if the CFTC/Comex/CME/SEC is unwilling?

Keep up the great work, thanks for all your help and advice to us silver investors.

Regards, Edmund

Question 1. What I mean by Â?pretending to sellÂ? is the practice of the commercials to actually enter orders to sell on the GLOBEX, the electronic trading system for the COMEX, to suddenly sell great quantities of silver (or gold) contracts just above the then-current market price. These orders are rarely actually filled, because they were not entered with the intention of being executed. They were entered with the express purpose of falsely signaling to the market the presence of impending large sell orders in order to scare and panic others into selling, thus driving down the price.

As the price gets driven down, due to this market Â?bluff,Â? the lower price causes actual selling from the technical funds who are only motivated by price action. This is always the intent of the phony pretend orders that start the price snowball rolling down the hill. It is as illegal as it gets and the Enforcement Division has been given enough evidence for 1000 enforcement actions. I don't know how these Enforcement people can live with themselves and I have told them that in those exact words.

Question 2. The commercials certainly do buy on these artificially induced sell-offs, as that is the primary purpose of the ruse. But the manner in which they have bought is what is illegal. First, they start the price drop with the pretend orders then they reap the reward of their illegal scheme by buying the contracts at the self-created price lows. All the commercials wait patiently in the sell-offs to buy in unison at predetermined low levels. The commercial didn't do this just this past week; they have done this on many hundreds of occasions over the past 20 years. That's a fact easily proved in COT data over this period, namely, that the commercials have always bought big on a net basis on down periods and sold on upswings. It could be classified as simply astute trading, except for the fact that the commercials are controlling the trading with illegal actions (the pretend orders) and collusion.

The main point I was trying to bring out was how impossible this long-term and unusually consistent behavior could be free market activity. Do you think the commercials are just so incredibly lucky that they have never been wrong? Collusion is the only possible explanation. It is not possible that the commercials are not working in cahoots with one another. Someday, I believe that collusion will be broken, but up until now, it has been a very successful scam. The consistency of the commercials' success proves collusion. As I indicated in the original article, I'm open for an alternative explanation for how the commercials have never been wrong once in 25 years in trading COMEX silver.

Question 3. JPMorgan has been covering its short position noticeably over the past 6 weeks. They have been skillful enough to do this with no great net rise in price. By my estimates, they have covered up to a third of their silver short position, leaving two-thirds yet to be covered. The first third was the easy stuff, the low hanging fruit. If JPM is serious about getting rid of what I think is a very big problem, financial, reputational and liability-wise, a more pronounced impact on price will come at some point in the short-covering process. I can't prove that, at this point, but that is my expectation. At the very least, I am convinced they will not be big additional silver short sellers in the future. If I am correct, that's a game changer.

Question 4. I am not the spokesman for the DOJ or the CFTC. I don't know what they are waiting for. As far as I know, they have received enough credible evidence to have acted by now. I can tell you that I have still not been contacted in connection with the now two year old silver investigation, even though I was responsible for this and all other past silver investigations. That tells me something is wrong with the process, but exactly what I don't know. Since I am also not a prosecutor, I can't bring charges myself. All we can do is to keep making the case based upon the public data and continue to apply pressure on the regulators to do their job.

Ted: As a follower of yours for many years and a true believer I appreciate greatly what you have done in the past concerning silver prices and of your ongoing zeal to stop the corruption in silver. I have just two questions that you perhaps can spread some light upon, which might be of some interest to your readers.

#1) could the tech funds really be that stupid to have been fleeced over and over again by the concentrated shorts, and when will they run out of money? There has to be some other reason. Or might it be a combination of both being stupid and of that "other reason"?

"Fool me twice, shame on me" …or "The second kick of the mule is no education"

#2) if position limits are reduced to 1500 contracts this could vastly alter JPMorgan's shorting behavior. But what would prevent the smaller, more numerous "raptors" and smaller commercials from being emboldened and taking their place?
They would probably be fine with 1500 contract limits each, which could collectively amount to the same total shorts as JPMorgan's recent history has shown. Collusion among them would be very hard to prove. I am sure that they know this, and would avoid any documentation which could come back to haunt them. They would have an implied understanding among themselves about this and act accordingly, never making actual contact with

each other. Your thoughts?
Will

One. Individually, the tech fund operators are highly intelligent. Collectively, their actions are self-defeating. You must try to understand the nature of the tech funds. Starting back in the mid to late 1970's, I actually sold tech fund services to clients as a commodity broker at Drexel Burnham. It's a great concept and works well at times. The concept involves structuring a diversified futures portfolio with equal weighting spread out among a broad group of markets. Silver, for example, may be one of 50 different markets. All buy and sell signals are generated by technical formulae and all signals must be followed to eliminate human judgment. All the popular market saws are embraced, such as, cut your losses short, let your profits run, and keep doing what the system dictates, no matter how many losses you may take in any particular market (like silver).

The problem is that the commercials also know the tech funds' play book and through collusion game the funds. The tech funds don't believe that market manipulation is possible, so they don't want to hear that they might be the suckers in a crooked game. What they lose on silver or any other market is hidden by trading in other markets, so usually the tech funds' overall performance is not radically impacted. All this being said, many tech funds have reduced their exposure to silver, due to rotten results. But enough still persist that the silver market is held hostage to their continued fleecing.

Two. If silver position limits are reduced to 1500 contracts (as they should be) and phony exemptions to those limits are disallowed, the silver world would be radically altered, along with the price. Currently, 8 commercial traders on the COMEX hold roughly 60,000 contracts net short (300 million ounces), or 7500 contracts each. If the new limits were set at 1500 contracts and they were legitimately enforced, it would take 40 traders working collusively to replace what 8 traders are doing now. I don't think you could find those traders. Alternatively, the greater number of traders would require more collusion, making the scam more obvious. It would also require that many more traders would have to lie on their reporting to the CFTC, under the large trader reporting system. Bottom line Â? an enforced position limit of 1500 contracts would cook the crooked shorts' goose.

Ted Butler
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Gold – $1215
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