December 16, 2011 – SLV Short Position Update

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The latest short position report for stocks was released earlier in the week for positions held as of Nov 30. This was the report that I had speculated would show a decline in the short position of SLV, the big silver Exchange Traded Fund (ETF). Contrary to my expectations, the short position for SLV increased by more than 2.2 million shares to 25.2 million shares. This represents almost 25 million ounces of silver.
http://www.shortsqueeze.com/?symbol=slv&submit=Short+Quote%99

I had originally speculated that the short position in SLV would be lower in this report because the price of silver had experienced a fairly significant decline of roughly 10% ($34 to $31) within the reporting period. Most often, similar to what occurs on the COMEX, short positions expand on price increases and decline on price sell-offs. This is at the heart of the silver manipulation. To illustrate that point, the headline number in the CFTC's Commitment of Traders Reports (COTs), the total net commercial short position, declined by 5,500 contracts from Nov 15 to Nov 29. The total COMEX commercial net position reduction was the equivalent of 27.5 million ounces, representing a 21% reduction over the two weeks. The reduction in the COMEX commercial short position was ten times greater than was the increase in the SLV short position in equivalent silver ounces, just to keep this in proper perspective. To be sure, had the COMEX commercial short position increased during that silver price decline as did the SLV, then I would have really been surprised; but that didn't happen. Overall, the commercials were able to rig lower prices and speculative long liquidation as is their custom.

Still, I find the increase in the short position of SLV to be odd. During the reporting period, the price of gold also declined as much as $100. In contrast to the increase in SLV, the short position in GLD, the big gold ETF declined by 30% in the period from 22 million shares held short to just more than 15 million shares. The much smaller gold ETF, IAU, run by BlackRock (which is also the sponsor of SLV) witnessed a decline in its short position of 75%. (You can verify the specific numbers in the above link by inserting the stock symbols).

The decline in the GLD short position reduced its percentage of total shares outstanding to 3.5%. The increase in the SLV short position increased its percentage share of total outstanding shares to 7.8%. Due to the nature of hard metal ETFs, I believe there should be little or no short position allowed in these highly-unique securities, say of no more than 0.5% to 1% of total shares outstanding. To every shareholder of hard-metal ETFs, like SLV, GLD and IAU and others, the prospectus promises that there will be a fixed amount of metal behind every share issued. The existence of a short position effectively increases the shares outstanding (on an unauthorized basis) and the shorted shares have no metal backing.

The essence of my criticism of SLV shorting involves two things. An allegation of fraud and misrepresentation to SLV shareholders (like my wife) because metal can't possibly back the shorted shares and that the short position is manipulative to the price of silver. That's because the short sellers are shorting SLV shares because they won't or can't buy the physical silver as that would cause the price of silver to rise. Even though it was higher earlier in the year, the 25.2 million share short position in SLV is still outrageously excessive by any reasonable standard.

The issue of short selling in silver can be confusing, so let me try to make it clearer. In derivatives, like COMEX silver futures or options contracts, shorting is required. There must be a long and a short in order to create a contract. If there were no shorting, there would be no market; period. I'm not opposed to shorting in futures in general. My allegation of manipulation in COMEX silver revolves around the unusual concentration on the short side by a few commercial players, most notably JPMorgan. Concentration is the point in futures, not the act of shorting.

In the stock market, there is a different set up. Short selling is not required in securities for the market to exist, as it is in derivatives. Companies issue shares to investors and those securities trade on exchanges and over the counter. It is not necessary for there to be a short for every long in stocks, as it is in futures and derivatives trading. While legal, short selling in securities is restricted by share borrowing requirements and other measures. I'm not interested in discussing the merits of stock short selling or lack thereof; my intent is to show that shorting in futures is different mechanically than shorting in stocks. Why I am so opposed to short selling in hard-metal ETFs, like SLV, is for completely separate considerations.

The hard-metal ETFs are incredibly unique securities in the universe of stocks. I believe that this uniqueness accounts for much of the negative commentary about SLV and GLD, in particular. Of the total universe of tens of thousands of different stocks in existence, only a very few are hard-metal ETFs. Even expressing it in an actual percentage is hard. In addition, the hard-metal ETFs are relatively so new to the investment scene that their short history makes them difficult to put in proper perspective. GLD has been around for seven years, SLV for less than six years. Yet in that fairly limited time, each has become the largest publicly owned stockpile of gold and silver on earth. It seems clear that the idea of owning gold or silver by means of owning a stock appealed to a great number of investors. This has nothing to do with whether you should own these securities; that's up to you. But you can't objectively analyze silver or gold by ignoring the two 800 lbs gorillas in the room.

Because the hard metal ETFs are so new, so big and so unique when compared to all other securities, it is easy to overlook other facts unique to them. What accounts for their success is the convenience they offer of holding metal. Every shareholder of every hard-metal ETF believes in the representation of the prospectuses promising a fixed amount of metal for each share issued. Quite simply, every hard-metal shareholder believes metal backs the shares they own and the sponsors foster this belief. But the short selling of hard-metal ETFs completely negates the premise that metal exists behind all shares. Short sellers of hard-metal ETFs do not deposit metal and this results in the creation of shares with no metal backing.

Nowhere is the situation more critical than in SLV. Starting this year the short position in SLV has grown dramatically, from around 13 million shares to a peak of 37 million shares in the spring. Not only is the percentage of shorted shares of total outstanding shares higher in SLV than in any other hard-metal ETF, it is higher for a very unique reason Â? there is not enough physical silver available to allow for the normal issuance of shares as dictated by the prospectus. Aside from the harm short sellers are having on SLV shareholders, these short sellers are also manipulating the price of silver. If they had to go out and buy 25 or 37 million ounces of silver to issue shares as dictated by the prospectus, the price of silver would have soared. Instead, the SLV short sellers are helping to manipulate the price of the metal itself by defeating the intent of how shares should be issued.

This is not the first time I have raised this issue. Back in the summer of 2008, when silver was near the $20 mark, I wrote how the short position in SLV had grown to 25 to 50 million equivalent silver ounces, which was unprecedented at that time. This was back when Barclays still owned SLV and naked unreported short selling was prevalent. This naked SLV short selling played a big role in the collapse of silver from $20 to under $9 back then, just like the SLV short selling this year has contributed mightily to the collapse in silver from $49 to under $30. Certainly, the percentage decline in prices is strikingly similar between 2008 and this year. It is no coincidence that the price collapsed in 2008 and 2011 when the short selling in SLV was at an extreme. http://www.investmentrarities.com/ted_butler_comentary/06-16-08.html

In 2008, there were no good records to verify my claims that SLV had such a large short position; it was my own proprietary research. At the time, many doubted my premise because of the lack of verification. Short selling data reporting has improved immeasurably since then and today I can provide links to back up my numbers (see above). But the story was the same then and now. I believe the big COMEX short seller JPMorgan had a major role in the SLV short selling back then and this year as well. I can't prove that, but the regulators can easily do so and I have complained to the CFTC and the SEC about this coordinated short selling in silver, both on the COMEX and in shares of SLV. I don't think this should be too complex for them to grasp. I'll create a paint-by-the-numbers coloring book if necessary.

That an unusual and extreme amount of short selling should appear in the two most important silver entities is beyond coincidence. The concentration on the COMEX and the amount of short selling in SLV is stark, verifiable and visible to all. Both will tell you all you need to know about the unusual behavior of the price of silver when analyzed with a common sense filter. But the greatest lesson of all is what all this short selling should tell you about the future behavior of silver prices.

More than anything else, this need by a few commercial crooks to have to resort to excessive and manipulative short selling should tell you about the real condition of the physical silver market. It is because the silver market is so tight and that large quantities of real silver are unavailable that the commercial crooks have to sell short so blatantly. If you can't sell the real thing, you sell the next best substitute. Without the COMEX and SLV short selling, the price of silver would be dramatically higher. Since there has never been a legitimate explanation for the concentration on the COMEX or the excessive short selling in SLV, I am convinced both forms of manipulation and fraud are coming to an end, as the scrutiny increases. You should not let up in complaining about these crooked shorting mechanisms or in acquiring the cheap silver they have created.

Ted Butler

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Silver – $29.50

Gold – $1593

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