December 18, 2013 – The Bear Case

The Bear Case for Silver

There are always two sides to every market, the bull and the bear. As one who envisions sharply higher prices for silver, naturally I focus on the bull side. But it may come as a surprise that there has not been a day in almost 30 years when I have not considered the bear case for lower silver prices. Therefore, this is not a new endeavor for me; but rather one that has absorbed me continuously for decades. Only by trying to grasp the arguments for lower silver prices can one hope to balance any bullish analysis. Today, I'd like to discuss the case for lower silver prices.

First, I confess to reading everything possible about the price prospects for silver. In reality, I am more interested in the bearish side, as I don't see much benefit to reading analysis that confirms what I think I already know. I'm much more interested in ideas that conflict with what I hold to be true. Since my opinions about silver are based upon supply and demand, both in the actual metals market and in the derivatives market (the COMEX) that determines short term pricing, I especially seek out the bearish arguments that conflict with my take on supply and demand.

Nearly everyone has an opinion about the future direction of silver prices, but I'm not concerned with opinions. I'm only interested in the facts and logic that back up an opinion. Don't tell me where you think prices are headed; tell me why. And that's the big problem with the bear case for silver currently, namely, the facts and logic are absent. From everything I read, those expecting lower silver prices base their expectations on the sole fact that silver prices have gone lower. But to expect the price of anything to go lower simply because it has already gone lower seems as circular as expecting prices that have gone higher to continue to go higher indefinitely. That's not analysis; that's projection.

That's reflected in the vast majority of current bearish silver sentiment being based upon the charts and technical analysis. While I look at the charts on a daily basis, I don't dwell on them or consider them capable of predicting the future. I've known and do know successful traders who rely on a technical approach to the markets and this is not meant, in any way, as an insult or belittling of that approach. The charts tell you in exquisite detail where you have been; but are nowhere near as accurate in predicting the future.

As a supply and demand analyst, I choose to approach silver on that basis. I believe that a long term approach is the only real chance for the average investor, as very few are suited to active trading. Complicating matters is that technical analysis is predicated on the foundation that markets are free. At the core of my findings is that silver has been and is still manipulated in price. Since price is the sole determinant in technical and chart analysis, it seems illogical to depend on a manipulated price to dictate investment decisions.

My intent is not to bad-mouth charting or technical analysis (or insult friends), but rather to point out that this approach does not intend to present a bearish or bullish case on the fundamentals. Charting is about the here and now and competent technicians are generally neither long term bulls or bears, but look to the price and price change for a market stance. Market stance can change as often as the price changes. Those bearish on silver (and gold) currently based upon the charts will become bullish on higher prices. That's not long term analysis in my opinion. As an aside, every chartist that I know who is bearish currently is actively looking for the point to reverse and get long silver for what they feel will be a large move to the upside.

Away from chartists and technicians, the low price also invites much of the remaining bearish market opinion. This is different in that the tremendous drop in price this year has convinced many that the silver supply/demand fundamentals must be bearish. This is circular logic at its most extreme. The price of anything is the one indisputable fact that all can see and there is a firm but unspoken belief that the price can't possibly be wrong because all can see it. Therefore, what occurs when a price has fallen sharply is that the supply/demand fundamentals are widely assumed to have turned negative; otherwise, why would the price have fallen? This is a collective and intellectual reflex reaction to the sharply lower price; a rationalization that conforms to the way people think things should work in the world.

When I first discovered that silver was manipulated in price, nearly 30 years ago, the price was locked between $4 and $5 for years on end. Even though the world was consuming more silver than was being produced for decades and depleting world inventories at an alarming rate (which is the most bullish circumstance possible in any commodity), the vast majority of commentators spoke about silver surpluses as far as the eye could see. One wag (still around today) stated that there were more silver ounces in the world than cockroaches and recommended going short at $4, which turned out to the exact low point going forward.

I don't know (or care to know) how many cockroaches there are in the world, either today or back then, but I do know that it was the extreme low price of silver that led to the assertion. People can't help it Â? when they see low prices, they assume the fundamentals must be bearish. It's just human nature. That's why most everyone was bearish when silver was very low in price back then and why there is so much negative sentiment today.

My point is that it is hard to look at the fundamentals of supply and demand and not be prejudiced by the current price. Hard, but not impossible. The key is to try to separate the fundamentals and the price. There has been no surge in total silver production this year (mine plus recycling), nor any drop in total fabrication demand. With silver prices below the cost of production for many miners, it seems impossible for production to surge. Yes, there has been a stagnation in total silver investment demand (although not in coin demand, which is at a record) as a result of the sharp drop in price; but the stagnation in total investment demand is a result of the drop in price and not vice versa. In other words, investment demand is down because silver prices were deliberately manipulated lower on the COMEX by JPMorgan and other collusive commercials. If silver investors had rushed to sell metal holdings causing prices to fall, there would not be much to complain about; but that is not what occurred. Instead, silver investment demand was chilled by the intentional price rigging on the COMEX, as confirmed by government positioning data.

Because it is not possible to construct a legitimate bearish case for silver based upon actual supply and demand considerations, there is another tendency to introduce factors thought to be fundamental, but in reality are incidental to true supply and demand. As was the case decades ago, all sorts of peripheral reasons, like expectations of inflation, Fed policy, currency and interest rates, the stock market, etc, are offered as fundamental supply and demand factors explaining and predicting silver prices. In my opinion, these are not true supply/demand factors in silver and no good correlation can be ascribed to them concerning the price of silver. But it does sound reasonable, after prices have fallen sharply, to think that low inflation rates, for example, contributed to the low silver price. Sounding reasonable and being true are often two different things.

Since I am contending that no actual bearish fundamental case exists to explain the poor price performance for silver over the past few years and, particularly, this year, it is incumbent on me to provide an explanation for the rotten price performance. As was the case ten, twenty and thirty years ago and is the case today, the low price of silver is due to price manipulation on the COMEX. Here's something that I've thought about constantly over the years, but I don't think I've ever written about it before. I believe an objective analysis of silver price performance over the years proves that silver has been manipulated in price.

For 30 years, the price of silver has either stagnated over long periods of time (years) or actually declined; only to experience powerful bursts in price more extreme than in any other commodity. On five separate occasions, in 1987, 1997-98, 2006, 2007-08, and in 2011, the price of silver doubled in a matter of weeks or months. I suppose many would contend that this price pattern is normal in silver without giving it much further thought. I would agree it is normal price behavior for silver, but for a very good reason Â? that this proves silver has been manipulated in price.

Let's face it Â? silver, like any metal, is produced and consumed 24/7 on every single day of the year and decade. Further, silver is one of the oldest metals in human history and is truly universal in recognition and awareness. With that background, why should it be normal for the price to stagnate for years, only to erupt and then collapse again in remarkably short periods of time? What legitimate free market forces could possibly explain the highly unique price pattern in silver? Save your time and energy and the use of your grey cells Â? there is no legitimate explanation. There is an explanation, all right, but it sure isn't legitimate.

The historical silver price pattern alone proves that the price is subject to some unusual outside force that renders that pattern different from that of any other metal or commodity. That force is the manipulation on the COMEX. For the last almost six years, the prime silver price manipulator has been the largest US bank, JPMorgan. The reason I stick to it is because it is the most important feature in silver. Of course, we don't have to rely on the highly unique and unusual price pattern in silver alone to prove the manipulation; government data revealing concentration on the short side of COMEX futures completes the case.

You should be saying right about now Â? Â?Hold on a minute there, Bucko, didn't you just give us the only bear case that matters in silver, namely, that the crooks at JPMorgan will continue to manipulate the price of silver as long as they desire?Â? Yes, I did. And make no mistake Â? the continuation of the decades-old COMEX silver manipulation is the only bear case that matters; so let me address that straight on.

To make matters worse, the prime regulators, the CFTC, as well as many other government overseers and the self-regulator, the CME Group, have claimed to investigate silver on numerous occasions over the years only to end up allowing the manipulation to continue. After more than 25 years of petitioning the regulators, I've reached the point of having zero expectations that the CFTC will ever do the right thing in silver (or gold).

But that's very different than regretting being personally responsible for causing the agency to investigate silver on many occasions. In fact, I'm thankful for having done so as it has given my allegations legitimacy because I took the time to convey those allegations in the proper manner to the appropriate authorities. I also believe my approach, which included sending all allegations to JPMorgan, establishes a strong foundation for me to pinpoint JPM in the future.

So how to counter concerns that given the CFTC's dereliction of duty and the power of JPMorgan that the bear case of manipulation won't dominate silver forever? The first thing I'd point out is that the continuous COMEX manipulation is, as explained above, the sole reason for the unique price pattern in silver; comatose for years only to suddenly explode, most often doubling in a short period of time. All five of the silver price explosions from 1987 on occurred against a backdrop of the CFTC denying any manipulation existed. So it would not be unreasonable to expect the price to explode again while the agency stood by sucking its thumb, especially considering the price pattern of the past few years. In a very real sense and considering how low the price has been depressed (below the cost of production), there's every historical reason to expect another quick doubling in price at some point. And that's assuming the manipulation continues.

But considering the historical record of other market manipulations, it is more reasonable to conclude that this ongoing silver manipulation will be terminated in time. In that event, I would expect much more than the mere doubling in the price that's occurred so many times in the last quarter century. All the previous doublings in the silver price quickly eroded precisely because the manipulators dug in and caused the price to collapse. But the very definition of the termination of this COMEX silver manipulation requires the concentrated shorts not to have dug in and maintained and increased excessive and uneconomic short positions.

It's really quite simple Â? a manipulated market is defined by a concentrated position; a free market has no such concentration of holdings. Let me make it more specific. For the past six years, one entity (JPMorgan) has often been the sole new short seller on every silver price rally of significance. This is how and why the silver manipulation has persisted. This is how and why the manipulation will end, namely, JPMorgan not adding to COMEX silver short positions. I suppose it is possible that this crooked bank may find a way to disguise future additional COMEX silver short sales, but barring that it comes down to whether JPMorgan shorts more silver or not as to whether the manipulation is terminated.

We can't know what JPMorgan will or won't do, but I can pinpoint that this bank's actions will determine when and whether the silver manipulation ends. That may not sound like much in terms of the enormity of this silver market crime and how long it has lasted, but it is light years ahead of what has ever preceded any manipulated market in history. Never have there been widespread and specific allegations of wrongdoing before any other market manipulations were terminated. Never has the prime perpetrator been identified before any market manipulation was ended. Not only are these circumstances extraordinary and unprecedented, I can't see how this doesn't add to the odds the manipulation will end rather than result in extending it.

Market manipulations are rare and illegal. History and economic logic dictate that all market manipulations, no matter how long they may last, must come to a sudden end. You have to ask yourself – does the broad exposure of JPMorgan as the silver manipulator make it more or less likely that the silver manipulation will end? I do not underestimate the power and influence accruing to the largest US bank, because only a powerful institution could manipulate a market. That only increases the stakes.

Please consider the fate that befell the previous powerful institutions that manipulated the price of silver over the last 30 years by means of a concentrated short position on the COMEX, starting with Drexel Burnham, on to AIG, then to Bear Stearns, before coming to rest with JPMorgan. I'm not suggesting that all these institutions went belly-up because of silver (except Bear Stearns) or that JPMorgan will meet the same fate as its manipulative silver predecessors, but I am very much suggesting that manipulating the price of silver can be hazardous to any large institution's financial health. Considering the legal and regulatory hot water that JPMorgan has found itself in recently, only a fool would argue the bank was squeaky clean in silver and gold. This does not add to JPM's power and influence.

The flip-side to the potential hazards that face JPMorgan for manipulating the price of silver is the opportunity presented to those that invest in silver. Regardless of the cause for a low price, that low price automatically increases potential investment value. Silver is not an asset that can go bankrupt or become valueless, it is a vital industrial metal with intrinsic value and an alluring investment appeal. That combination, plus a price pattern that indicates the price could suddenly erupt and double without notice, makes the current low price the ideal entry point for new investment.

Having been intimately involved in silver just before it exploded every time it did over the past 25 years, the current set up feels hauntingly familiar. The circumstances have changed somewhat, but the major theme is the same as ever. We had technical funds being led around by the nose by the commercials, but we didn't have 24 hour trading and HFT computer algorithms. We had a big concentrated silver short, but I was never able to identify who that short was. We had some, but nowhere near the awareness that silver was manipulated like we do today.

One thing that does appear to be almost the same today as it was before every past price explosion – we had a proliferation of bearish stories. There is only one bearish story today with any merit; that of JPMorgan refusing to stop manipulating the price of silver. But considering how attractive has become the price because of JPMorgan's manipulation, that manipulation is now the silver investor's greatest ally. If silver wasn't manipulated, the price wouldn't be in the bargain basement. The tide of history argues against JPMorgan prevailing in the manipulation long term and even in the short term silver can double, just like it has done so many times in the relatively recent past.

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Silver – $19.95

Gold – $1230

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