December 23, 2020 – Important Distinctions

I did an interview with Chris Marcus, from Arcadia Economics, the other day that might be of interest. As might be expected, I harped on the concentrated short position in COMEX silver (no surprise to subscribers), but in listening to the interview afterwards, a point made by Chris that I didnâ??t comment on gave me food for further thought.

https://www.youtube.com/watch?v=hQhqn5zt41s

Chris raised the issue of the Bernie Madoff scandal, which broke open this month 12 years ago, in 2008. That year was quite the year, seeing as it began with JPMorgan acquiring Bear Stearns and ended with the Madoff scandal. As Chris correctly mentioned, the regulators, in the form of the Securities & Exchange Commission, were warned well in advance of suspected illegality at Madoffâ??s investment firm by Harry Markopolos. Chrisâ??s point was that the SEC ignored the warnings, much like the CFTC has ignored the repeated warnings of a silver (and gold) price manipulation, which is spot on.

I would also certainly agree that there would appear to be a similarity in how the Madoff scandal got resolved and how the silver (and gold) manipulation will get resolved, namely, with no proactive input from the regulators. Both Madoff and the silver manipulation reveal significant regulatory failures. One additional similarity was that Markopolosâ??s warnings and my allegations of a silver and gold manipulation were based on fairly simple mathematical observations. In Markopolosâ??s case, it was that the remarkably steady annual returns reported by Madoff were impossible in light of market volatility and the amount of assets under management. In my case, a concentrated short position greater than exists in any other commodity canâ??t help but artificially depress prices.

But there the similarities end and important differences emerge. For starters, neither Markopolos nor the SEC ever publicly addressed the Madoff allegations, to my knowledge, so few outside the agency or Markoplosâ??s inner circle became aware of the Ponzi scheme at Madoff until the money ran out and new investor inflows were insufficient to pay off older investors. Markopolosâ??s complaints to the SEC ended a few years before the scam imploded. No disrespect meant towards Markopolos, but he didnâ??t warn the public or investors in Madoffâ??s fraud beforehand, mostly out of concern for being sued by Madoff for libel or slander.

In contrast, after approaching the CFTC and the exchanges where silver traded in 1986 and every government official I could think of since, I have done little but publicly warn of the silver manipulation. After satisfying myself that what I have alleged is completely accurate, no one can say I have long since crossed any line pertaining to libel or slander regarding JPMorgan or the CME Group. I wish I had an ounce of silver (or gold) for every time I referred to these organizations as crooks and criminals. Please understand I am not seeking a pat on the back or a cookie or a gold star on my homework â?? I just need to make a point that needs making.

While the SEC never addressed the Madoff fraud before it imploded, that is not the case with the CFTC and the concentrated short position in COMEX silver, as it issued 15 page public letters in 2004 and 2008, denying that there was anything amiss. To me, thatâ??s infinitely worse than the silence from the SEC about Madoff. True, the CFTC hasnâ??t publicly commented about the concentrated short position in silver (or gold) since 2008, but thatâ??s not due to any let up on my part for it to speak up.

Another very big difference between Madoff and the silver manipulation is that those damaged by Madoff were those in his Ponzi scheme and not outsiders or markets in general. Plus, the victims of Madoffâ??s scam have been subsequently mostly made whole. Yes, there were some claw backs where those which received payouts were forced to give back proceeds based upon non-existent gains in the aim of making all victims whole, but thatâ??s fairly standard in such cases. Certainly, there was no market manipulation by Madoff, simply because he never actually traded anything â?? he just sent out phony profit statements and funneled new investor money to pay off to older investors â?? until the money ran out.

Since silver (and gold and palladium and platinum) has been actively manipulated in price for decades, the illegality is much more pervasive than ever occurred with Madoff. Only those investing with Madoff suffered losses (largely recovered); with the silver manipulation, itâ??s not just those dealing on the COMEX that have been damaged â?? every investor in silver or silver mining companies and the mining companies themselves have been damaged by the dealings on the COMEX because the COMEX sets the price of silver throughout the world. To put this in proper perspective, the silver (and other metals) manipulation is a thousand times, if not many thousands of times, more severe than the Madoff fraud ever was. Thatâ??s what makes price manipulation the most serious market crime of all.

Finally, the most important distinction between Madoff and the silver manipulation is that there wasnâ??t much a regular investor could have done had he or she been made aware of the Madoff fraud other than to avoid investing there. Advance knowledge would have been limited to stay away from Madoff. With silver, the difference could hardly be more profound. The fact that the price of silver has been artificially depressed in price creates, in and of itself, the greatest opportunity to profit possible. I donâ??t expect anyone to share my passion for seeing the manipulation end, but would expect everyone paying attention to be excited about future price and profit prospects

For sure, up until the moment the big shorts throw in the towel, silver must be considered manipulated and subject to the constant price beatings that have endured for decades. But knowing why those beatings are occurring should make all the difference in the world. If anyone becomes convinced that 4 or 8 big shorts can continue to depress prices indefinitely, then that person should avoid silver. But if you believe, as I do, that this whole concentrated short scam fully explains silverâ??s low price and great volatility and is on its last legs, then I canâ??t begin to imagine what could be a better investment opportunity.

The way I see things, there are countless legitimately-sounding influences on silver and gold prices. A partial list would include; Fed actions, interest rates and inflation, deficits and money creation, stock markets, Bitcoin, currencies, other commodities, central banks and the BIS, COMEX deliveries and warehouse flows, the charts, ETF and retail demand, mine production and consumption, COVID-19 and maybe a hundred other things. Some I weigh higher than others, but in the total scheme of things, on a scale of 1 to 100, with 100 representing the most influence and 1 representing the least price influence, all these items would range in the low single digits (for now). The only thing I would put at 100 would be the concentrated short position (Iâ??d also lump what JPMorgan does or doesnâ??t do in the 100 range). Â Someday, hopefully in the relative near future, the concentrated short position will no longer exist and all these other factors will emerge as legitimate price influences. But while the concentrated short position does exist, little else really matters.

Not only does the concentrated short position explain the overall depressed price of silver for years, it particularly explains the sharp and almost inexplicable selloffs which occur for no apparent reason. And even though gold shares many aspects of the concentrated short position as silver, the position in gold is not as egregious as it is in silver. After all, gold has made all-time highs fairly recently and is barely 10% below those record levels currently. A review of other metals is also revealing.

Palladium did have an even larger concentrated short position than silver for a brief time 5 years or so ago and that caused prices to be artificially depressed, but that short position has been largely bought back and as a result, palladium process are close to 5 times higher than they were back then and close to all-time highs. This makes palladium the perfect template as for what to expect in silver, since both are industrial metals (in addition to being precious metals). Speaking of industrial metals, copper prices are closer to all-time highs than lows and donâ??t feature anywhere near the concentrated short position as exists in silver.

Platinum prices are still close to 50% below former long term highs and guess what â?? the concentrated short position in NYMEX platinum futures is second only to silver. The difference in platinum is that there hasnâ??t been the blistering investment demand thatâ??s been present in silver, as evidenced by record silver ETF holdings, COMEX warehouse holdings and persistently high premiums on retail forms of silver.

Of every metal and just about every commodity only one, despite a decent rally this year, is still half the price high achieved nearly ten years ago and 40 years ago and that commodity is silver. In addition to representing an investment bargain on its face, the unassailable explanation for silverâ??s incredibly depressed price is the concentrated short position of the 4 and 8 largest traders on the COMEX. I say unassailable because to my knowledge there has been no explanation forthcoming from anyone â?? including the regulators or those regularly accused of engaging in manipulative behavior, like JPMorgan and the CME Group.

I understand that Harry Markopolos was worried about his and his familyâ??s safety and of legal blowback from Bernie Madoff and that prevented him from â??going publicâ?• with his misgivings about Madoffâ??s operation being a Ponzi scheme. The truth is, I shared many of those concerns in the early years of making my allegations. But the passage of time and the continuing flow of documented evidence has a way of making such fears dissipate over time. Now, Iâ??m more anxious to drag this thing out into the open before my time is up than worrying how the crooks at JPMorgan or the CME Group may react.

Turning to the price action since Saturdayâ??s review, the volatility witnessed, particularly Sunday evening and on yesterdayâ??s steep selloff in silver, has all the footprints of the 8 big shortsâ?? involvement. Those â??footprintsâ?• include factors previously discussed, like key moving average penetrations (or lack thereof), the status of the total losses to the big 8, the approach of the key yearend mark to market and the continuing â??washed outâ?• COMEX market structures in gold and silver. (Since Christmas falls on this Friday and New Yearâ??s Day the following Friday, there will be no COT report until the following Mondays, I plan on publishing separate COT comments on both Mondays). Letâ??s look at the footprints of the big 8 these past few days.

At the risk of falling into a rut and blaming every sharp selloff on the 8 big shorts, I try to take pains in coming up with a reasonable alternative explanation. But guess what – no explanation seems reasonable when compared to such selloffs being the work of the big 4 and 8.

Certainly, in the case of silver, the technical â??all clearâ?• signal was given late last week when the final important moving average (the 100 day moving average) was decisively penetrated to the upside and reconfirmed Sunday evening when prices rose as high as $27.50, only to be immediately smashed down by more than $2.50. Thereâ??s no plausible explanation for such price behavior, following the breakout of a months-long price consolidation, other than the 4 and 8 big shorts stiffening up on a goal line stand to beat back and curtail additional technical buying. It was way too early in the move for longs to be concerned about selloffs, as they had hardly gotten onboard. Now whether the big shortsâ?? manipulative selling has any real lasting power is another matter completely and it strikes me as desperation at this point.

In the case of gold, we still havenâ??t taken out the all clear technical signal, as the gold rally Sunday night stopped at its 100 day moving average (now around $1910).

As far as what to expect in Mondayâ??s COT report as of yesterdayâ??s cutoff â?? we just ended another bifurcated price reporting week, the kind that make predictions almost impossible. The price strength last Wednesday and Thursday, in which gold upwardly penetrated its 50 day moving average for the first time in two months and in which silver penetrated its 100 day moving average for the first time since May, undoubtedly brought in some managed money buying and commercial selling. This was apparently conformed by increases in total open interest of close to 12,000 contracts in each as of last Thursday. But muddling the picture is that total open interest has only retreated by less than 2000 contracts in silver and 4000 contracts in gold in the days since last Thursday.

I know as well as anyone that changes in total open interest are not the be all and end all to actual net positioning changes, but I also know when itâ??s time to be wishy washy. Letâ??s just say that some moderate deterioration (managed money buying and commercial selling) wouldnâ??t surprise me in Mondayâ??s report, but Iâ??d love to be surprised by less than moderate deterioration.

In any event, if we are on the threshold of a major up leg in silver and gold, as I expect and hope, the current washed out market structures are fully supportive of such a price up leg. Simply put, the managed money gross long positions in gold wouldnâ??t appear to offer the potential for serious liquidation on lower prices and the same may be true in silver if a good chunk of the managed money long position is held by non-technical type traders, as I strongly suspect and have commented on recently. On the same token, there would appear to be gobs of potential new managed money technical fund type buying on a genuine price breakout higher. Thatâ??s the definition of washed out.

Of course, the only potential party poopers to higher prices are the 4 and 8 largest shorts in COMEX gold and silver â?? the permanent Grinches out to steal and prevent profits from accruing to the millions of silver and gold investors. As is now evident in every sharp selloff over the decades and in the still extremely suppressed prices in silver, these few big shorts are all that is standing between current prices and where we will be in the future (which is much higher). Iâ??m not making light of it in any way â?? theses 4 and 8 big shorts are crooks and price manipulators, as was the former biggest crook and manipulator, JPMorgan.

It doesnâ??t bring me any joy that JPMorgan has completely extricated itself from the short side in gold and silver and is now massively long in physical metal, but neither am I dismayed by its criminally genius turnabout. The fact that JPM is already ahead by twice as much as the 8 big remaining shorts are in the hole with the prospects for that to greatly expand in the future is not an unpleasant thought. I do still have concerns about whether JPMorgan chips in with the big shorts in adding shorts on future price increases, but worrying about it isnâ??t particularly constructive. If it does add to shorts, it should show up in future COT reports and Iâ??ll deal with it as best I can. It does strike me that JPM would prefer not to continue to be referred to as market crooks, as would anyone else, all things being equal.

As of publication time, the 8 big shorts regained some of last weekâ??s sharp $1.9 billion increase in total losses, although not nearly all. At current prices, the big shorts regained close to $350 million of last weekâ??s losses, putting them at just over $13 billion in total losses.

Weâ??re about a week away from the big yearend mark to market for the 8 big shorts. Of course, there is no way of accurately predicting exactly where gold and silver prices will settle for the year. But it certainly is easy to review what the quarter end results have been since I first started tracking big 8 performance about a year and a half ago. At the third quarter of 2019, they were in the red for $2.4 billion, by yearend 2019, they were behind $3.8 billion, their worst yearend finish ever and equaling their previous deepest in the hole amount in the summer of 2016. It must be noted that on all these previous occasions, JPMorgan was very much within the big 8 fold, among the largest, if not the largest short in gold and silver.

At the end of the first quarter this year (March 30), the total loss (open and realized) to the big 8 shorts in gold and silver was only slightly larger than the year end level at $4 billion, but with an important difference â?? JPMorgan was no longer short and the loss was borne by the 8 big shorts and without any participation by JPM. On Jun 30, the total loss grew to nearly $10 billion and without participation by JPM and grew further to $12.8 billion on Sep 30, again without JPM. Â The total loss to the big 8 did dip to $9.8 billion as of Nov 30, but as of today (as indicated above at $13 billion), is slightly larger than the Sep 30 quarter end, the worst showing for the big 8 yet. Again, what it will be at next weekâ??s yearend wonâ??t be known until then, but for the year the big 8 have never had a worse annual performance.

Throw in the fact that JPMorgan dropped off the key, Lee, and made a new plan, Stan, and vacated the short side means that few would want to be in the shoes of the 8 big shorts (except under heavy medication). The 8 big shorts may or may not be able to contain prices through the yearend mark to market, but they are going into the New Year in their worst condition ever. Maybe Iâ??m a bit jaded, but thatâ??s a cheerful holiday note to me. I do plan on publishing the weekly review on Saturday. Best wishes to all for a Merry Christmas and Happy Holidays â?? excepting the big shorts, of course.

Ted Butler

December 23, 2020

Silver – $25.80Â Â Â Â Â (200 day ma – $21.22, 50 day ma – $24.39)

Gold – $1876Â Â Â Â Â Â Â Â Â Â (200 day ma – $1821, 50 day ma – $1873)

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