

December 8, 2021 – Another Side/Enablers No Longer?

Another Side to the Story

There have been a number of video interviews and roundtable discussions purporting to highlight the pitfalls and travails of someone attempting to secure delivery of a standard COMEX silver contract and then ordering out the five one thousand oz bars. Overall, they paint a picture of either underhanded dealings or a delivery system deliberately made difficult to discourage investors from engaging in the COMEX delivery process.

Upfront, my purpose in writing this is not to defend the COMEX, which I openly proclaim to be overtly manipulating the price of silver (and gold) through its highly-defective price discovery mechanism, but to set the record straight on what I believe to be misinformation about its delivery process. Simply put, the interviews and roundtables are painting a picture in extreme contrast to my own personal experience over the past 40 years. I'll get into how I believe the recent videos are misstating the workings of the COMEX delivery process, after laying out my own experiences.

As I've described consistently from the beginning, my epiphany in silver traces back to the challenge my now-departed mentor and friend, Israel Friedman, gave me back in 1985 to explain why silver was so underpriced in the face of its documented physical market deficit, which led to my discovery that it was due to paper dealings on the COMEX. I've also recounted how Izzy bought silver at \$4 or so in the mid to late 1970s and sold it at \$40 in early 1980, essentially setting him up financially for life and which provided him with the resources necessary to put his three children through college and setting them up in their professional lives. A better father would be hard to find.

The actual mechanics of how Izzy did it involved first the purchase of COMEX silver futures contracts and then taking delivery of the warrants or warehouse certificates, followed by the eventual short sale of new futures contracts and the redelivery of the original warrants. This I know since I was personally involved in the eventual sale process. In no small measure, the idea of paying cash for physical silver and not to hold it on margin which I hold to this day, originated with Izzy's spectacular investment success. Following Izzy's example, I couldn't help but recommend his approach of taking delivery of warrants or certificates on silver futures contracts to as many investors interested in holding silver on a fully-paid for basis as was possible.

Nothing new here for long term readers, but now I would like to discuss something I've never shared before. As a result of my favoring of fully-paid for COMEX silver warehouse certificates, learned from Izzy, I wrote back in 1999, a public article highlighting such certificates as the very best silver investment possible for anyone with large amounts of money to invest. Please remember, this was years before the widely-popular silver ETFs were introduced, but for the most part, I stand by what I wrote more than 21 years ago.

<https://www.gold-eagle.com/article/best-silver-investment>

While I have mentioned this article on several occasions in the past, today I'd like to discuss one very tangible result that I've never previously disclosed. I always intended and encouraged those

investors so inclined and in financial position to follow my suggestion to do so, but had no real way of knowing who, if any may have done so.

Shortly after I published my article in 1999 and completely unbeknownst to me at the time, a well-to-do real estate investor from Wisconsin, did, in fact, follow my suggestion to the tune of buying \$15 million worth of silver in this manner – buying 600 futures contracts (3 million oz), at \$5 per oz, and taking delivery of the warrants in his brokerage account. A short while after the delivery was accomplished, he reached out to me and we developed a relationship that lasted until he passed away, around early 2010.

I later discovered his estate liquidated the silver by reversing the process and sold and redelivered the 600 contracts at around \$20 per ounce, or for \$60 million in the fall of 2010. (Sure, had the estate waited 6 months or so, the proceeds would have been \$60 million more due to the run up to over \$40 in early 2011, but it's hard to kick oneself when you've just inherited \$60 million – plus a lot more considering silver was hardly the deceased investor's only asset). All told, over ten years the \$15 million investment resulted in a \$45 million profit, with maybe \$1 to \$1.5 million in total brokerage and storage fees.

Why am I revealing this now? For a number of reasons. One, it's important to recognize that in addition to all the complaints from those who have suffered as a result of the ongoing COMEX silver price manipulation, that others have reaped great rewards by investing in silver. Most importantly, I am convinced countless others will be included on the success side of the ledger as this saga plays out.

My main reason, however, for recounting this personal experience (and there are many other favorable experiences) is to set the record straight concerning what I believe are false representations about the perils of taking delivery on a COMEX silver contract. Please understand that I am not aiming to be a know-it-all about everything silver related, but it seems to me that I should speak up if I come across what I feel are false or misleading statements about something I have specific experience in. I've never witnessed or experienced anything wrong with COMEX deliveries.

The first mistake the originator of the perils of the COMEX delivery story that's circulating is not doing his homework and making sure the broker he chose to work with was familiar with the process (as my article makes clear). One has to remember that the delivery process is something the brokerage will likely discourage for the simple reason there's not much in it for them in terms of compensation. Nobody goes out of their way to tie up a great amount of time and effort for free (certainly not brokers, lawyers, accountants, plumbers or any other professional).

Secondly, there is the matter of ordering out the physical silver after delivery is received, which appears to be the main problem in the interviews and roundtables circulating. I can just imagine me asking Izzy, back in the day, if he was looking to order out the silver he took delivery on, and him looking at me as if I had three heads and asking me why in the world would he want to do that? In the case of just one contract, five 1000 oz bars weigh 350 lbs. (70 lbs. per bar), much more for multiple contracts. The investor who bought 600 contracts would have had to arrange transportation and separate storage arrangements for 210,000 lbs. of silver. Why would he want to?

Look, I understand and sympathize with the sentiment of eliminating counterparty risk and the idea that metal held in one's personal possession is best (if you don't hold it, you don't own it, etc.). But because you get so much darn silver metal for the money (thanks to the price manipulation), even

relatively modest dollar amounts result in way too much silver to be stored in one's personal possession - professional storage becomes mandatory. Storage in the COMEX warehouses has been among the very best means of professional storage. And one can secure warehouse receipts directly from a reputable dealer for storage in a COMEX warehouse and forego the futures route (Investment Rarities, Inc., is one such dealer).

Ordering out the silver and taking actual possession involves all sorts of extra expenses and arrangements including transportation and safekeeping - and if the person involved thinks getting the silver physically loaded out is a pain, wait until he tries to get it back into the system. Physically ordering the silver out breaks the chain of custody and getting it back in requires re-assays to make sure the metal wasn't tampered with. Ordering out is fine if one is going to use the metal in manufacturing or jewelry fabrication, but it is not something of particular (or any) benefit to an investor. Certainly, it is not something the broker would want to get involved in - for no compensation to boot.

As I indicated in my article of two decades ago, storage in the COMEX warehouse system is among the safest and most secure of all, so why not take advantage of it and just leave the metal there? There are plenty of reasons to accuse the COMEX (CME Group) for wrongdoing in the pricing of silver, but let's not sit around trying to invent fictional reasons.

Enablers No Longer?

I'd like to follow up on the observation I made in Saturday's review about the highly unusual lack of managed money shorting on the recent price declines in silver and gold and how it could be a major game changer. Of course, the conclusion is tentative, since it is based upon very recent COT reports and, therefore, subject to change, but still pertinent enough so as to warrant attention now. First, by way of a backgrounder, I'd like to summarize as briefly as possible (not easy) the role of the managed money traders in setting the price of gold and silver on the COMEX.

Starting about 40 years ago and from where I date the beginning of the COMEX silver price manipulation, prices have, essentially, been set by the constant futures contract positioning contest between the traders classified as commercials (mostly banks) and the traders classified as managed money traders (broken out separately in the disaggregated COT report starting in 2009).

Within the managed money traders' category, moreover, there exists a group of traders whose trading decisions are based strictly upon mechanical technical signals, primarily moving average considerations. I've labeled these traders as the technical funds to distinguish them from other traders in the managed money category. You don't have to be a technical fund to be in the managed money category, as this category includes all traders managing money for other investors regardless of how trading decisions are formed. But the technical fund traders are the ones I refer to as being the main counterparties to the commercials.

I've long considered the technical funds as being the enablers, or the fall guys, almost always falling

victim to the commercial banks which lead them around by the price nose. In the past, I've likened the technical funds to the Washington Generals compared to the always victorious Harlem Globetrotters. The simple mechanism employed by the commercials against the technical funds was a toolbox full of dirty trading tricks (including, but not limited to spoofing) that prompted the technical funds to buy and sell at prices set by the commercials. Plus, it didn't hurt that the technical funds were conditioned to buy high and sell low, making them easy fodder for the commercials.

It's not that the technical funds are dumb or even on the take under the table, as many have suggested - it was just how the technical funds operated. By the way, my experience with the technical funds goes back decades as there was a time, when I was a broker, that the majority of my income came from introducing investors to various technical funds. The reason the technical funds buy high and sell low was in the hopes of catching a price trend early and then riding it out. This approach can work in non-manipulated markets, but in markets controlled by the banks, the approach usually leads to disastrous results for the technical funds.

One of the technical funds' biggest attributes, a rigid discipline, or the ability to make the same trade over and over regardless of how previous trades worked out, became an extreme liability in a manipulated market, such as COMEX silver and gold. As a result, I've long considered the technical funds as being the enablers to the commercial traders' increasingly obvious market control - not intentionally, but enablers nonetheless. In other words, if the technical funds didn't exist or behave in the predictable way they did, the price of silver and gold would not have been manipulated. This is not intended as an excuse for the commercials' abhorrently illegal behavior, just as an explanation for how these crooks were able to pull it off for so long.

In the beginning of the manipulation in the 1980's, the game consisted of the commercials allowing the technical funds to get long on increasing prices (into which the commercials sold short) before the commercials rigged prices lower and bought back their short positions as the technical funds bailed out of long positions. But starting in 2013, the technical funds began to also sell short on lower prices, giving the commercials another opportunity to trick them - allowing the technical funds to get short enough before the commercials rigged prices higher, forcing the technical funds to buy back shorts at a loss.

In fact, the managed money technical funds took to the short side with a reckless abandon, reaching an extreme of more than 100,000 contracts (500 million oz) in 2018 (with silver trading around \$14). Never having collectively made any money whenever they were heavily short, the technical funds began to curtail their silver short positions thereafter, but as recently as a couple of months ago built up a short position of more than 48,000 contracts (a two-year high) as silver slid in price to \$21.50 (because of the heavy technical fund shorting).

However, as I observed on Saturday, on the recent selloff to below \$23 and well-below all the key moving averages, the managed money technical funds seemed to have abandoned their previous pattern of adding aggressively to short sales on falling prices. The most recent COT report of Nov 30, indicated that the technical funds were short â??onlyâ?? a bit more than 21,000 silver contracts â?? nowhere near the more than 48,000 contracts they were short in September. Likewise, in the most recent gold COT report, the short position of the managed money technical funds was just over 45,000 contracts, compared to more than 88,000 contracts in Sep, despite gold having fallen below all its key moving averages.

Interestingly, the managed money short positions in both silver and gold are at one-year low levels, despite each market having closed below all three of their key moving averages (50, 100 and 200-day maâ??s). I wouldnâ??t be particularly surprised if this Fridayâ??s new COT report indicates some slight increase in managed money short positions in silver and gold, given the fresh price lows and continued trading below the moving averages, but neither am I expecting a very large increase.

So, operating under the premise that the managed money technical funds have finally wised-up to the inadvisability of shorting into a price hole, what does the recent distinct lack of managed money shorting mean? Unfortunately, here I have to get a bit deep into the weeds, so if you have any questions about what Iâ??m about to say, Iâ??m only an email away.

The lack of technical fund short selling on lower prices, should it continue, largely eliminates a big incentive for the commercials to rig prices lower. Sure, the commercials will gun for as much technical fund long liquidation as possible, but already the managed money long positions in silver and gold are close to one-year lows, so it wouldnâ??t appear much long liquidation remains. The lack of new technical fund shorting removes a big incentive for the commercials to continue to press prices lower.

On the one hand, itâ??s a bit unfortunate that the managed money traders havenâ??t gone shorter than they have, as they could always be counted on as strong buyers when buying back and covering added short positions. But because they havenâ??t added hardly any new shorts on the latest price rig lower, it has already affected the market in other ways. Perhaps the biggest takeaway at this point that the managed money traders havenâ??t shorted more is that the commercials, in turn, havenâ??t been able to buy as much as they would have had there been heavier managed money shorting.

In silver, this has resulted in an inability of the 4 big shorts to buy back and cover more of their concentrated short position and for the smaller commercials, the raptors, to build up a larger net long position than they currently hold. As of the most recent COT report of Nov 30, the 4 big shorts hold a somewhat larger short position than they did at the lows of September, but not by that much. And the big 4 are still close to 20,000 contracts less short than they were back in Feb.

The biggest reflection of the managed money shorts not shorting on this downswing in price is that the raptors (the smaller commercials apart from the big 8) have not been able to build up anywhere near the net long position they have in the past when the managed money traders did load up on the short side. In effect, the refusal of the managed money traders to load up on the short side in silver has prevented the raptors from building up a much larger net long position â?? almost on a contract-for-contract basis.

Back in September (as silver was on its way to \$21.50) and the managed money traders were short

more than 48,000 contracts, the raptors built up a net long position of more than 34,000 contracts. In the most recent COT report, the managed money short position was 27,000 contracts less short, while the current raptor long position is 22,000 contracts less long than it was back in September. What does this portend?

To me, it isolates and emphasizes perhaps the key feature of the ongoing manipulation, namely, that it hinges on whether the 4 big shorts add aggressively to their shorts on the next silver rally. The raptors, in my opinion, have shown no stomach for getting heavily short silver and once they sell out the 12,000 contracts they are now net long, it will be up to the big 4 to add enough new short positions to cap and contain the next silver rally â?? something they seem to have avoided like the plague since Feb.

So, in essence, we appear to be at an extreme inflection point, due to the low managed money short and raptor long positions, meaning that the big 4 will be called upon to either add aggressively to short positions in silver or stand aside. While I have been of the opinion that the big 4 wonâ??t add aggressively to their short positions and that has largely been true (for the first time ever for most of this year), in truth I canâ??t know what they will do. But I think I do know what will happen if they do or donâ??t add shorts.

If the 4 big shorts do add aggressively, that will become quickly evident in the COT report data and serve as a focal point for more aggressive regulator petitioning through elected officials â?? the only effective means of dealing with regulators who wonâ??t regulate. If, however, the 4 big shorts donâ??t add aggressively to silver short positions, then itâ??s hard for me to see how silver prices can be contained from moving sharply higher. So, in effect, the managed money traders refusing to add short positions of late seems to have set the stage for a real moment of truth.

Based on all the above, this Fridayâ??s COT report will make for interesting reading â?? not so much in the typical headline numbers of total net commercial buying and managed money selling (of which there should be some given that prices remained below all the key moving averages in both silver and gold) â?? but more in terms of the details on the managed money shorts.

It has now been two weeks since I reversed (in a matter of days) from bearish to bullish in terms of the COMEX market structures in silver and gold. Silver has slipped another dollar or so from where it was on Nov 23, with gold holding up better â?? but with both metals remaining below all their key moving averages. No doubt the commercials are doing their best to rig prices lower in the hopes of attracting additional managed money selling (both long liquidation and new short selling), but donâ??t appear to be having great success. I would expect the commercials to keep trying until it becomes obvious that the managed money selling has become exhausted.

While the raptors (the smaller commercials apart from the 8 big shorts in COMEX gold and silver) have consistently made profits over the past couple of years (and long before that), the 8 big shorts have remained in the red since June 2019. At publication time, prices are mixed since Fridayâ??s close, meaning the 8 big shorts are still out \$8.3 billion. Prior to June 2019, the largest loss held by the big 8 was around \$4 billion in the summer of 2016 â?? a loss they completely erased by the fall of that year. So, the persistent total loss of the big 8 over the past two and a half years is unprecedented.

Ted Butler

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Silver – \$22.45 (200 day ma – \$25.14, 50 day ma – \$23.56, 100 day ma – \$23.79)

Gold – \$1786 (200 day ma – \$1792, 50 day ma – \$1793, 100 day ma – \$1792)

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