

## February 10, 2021 – Putting SLV Into Proper Perspective

If there's one particular meme that just won't go away, it is the notion that the first and most popular silver ETF (Exchange Traded Fund), SLV, is a ruse and fraud created to somehow cheat silver investors. Please understand that I am in no position to personally guarantee whatever occurs in the trust, but I do believe I am entitled to offer a counter-balancing perspective to the recent rush to discredit this ETF.

I have never recommended that anyone buy SLV or any other silver security, as I don't offer such investment advice. However, as a silver analyst it is impossible not to delve into the workings of what is the ETF with the largest physical silver holdings in the world. In the interest of full disclosure, my wife still holds the bulk of her retirement account in shares of SLV (and no, we are not headed for divorce, as far as I know).

Let me start by taking the completely opposite position to those suggesting distrust of the shares of SLV (along with the other silver ETFs), by declaring that the trust has been the very best friend possible to silver investors of all stripes (physical metal and mining company shares), despite the criticism heaped on it. Let's look at the facts.

Since being listed for trading in April 2006, the SLV now holds nearly 640 million ounces of silver in the form of 1000 oz bars. Adding in the near 600 million oz held in other silver ETFs, no doubt inspired by SLV's success, total physical holdings in the world's silver ETFs now amount to an astounding 1.24 billion oz, or 60% of all the world's total bullion inventory of 2 billion oz. Had it not been for SLV and the other silver ETFs, there would be no way possible that this much metal would come to be owned in visible and publicly-traded form. Don't you think the purchase of that much silver has had a beneficial and bullish impact on price?

The question does come up in SLV (but curiously, not for the other silver ETFs) about whether the trust really owns the metal it purports to own, despite, perhaps with some understandable delay, a public listing of the serial numbers, weights and hallmarks of all the 640,000 individual bars it holds. Plus, the trust is sponsored and backed by one of the world's largest money managers, BlackRock, which holds \$9 trillion in total assets under management. What's the likelihood of BlackRock intentionally misreporting public data on a fund comprising less than 0.20 % (\$18 billion) of its total assets and that would be devastating to the firm's reputation? Yes, JPMorgan is the custodian of the trust and as I have pointed out for more than 12 years, JPM is a crook in many of its precious metals dealings (in fact, I doubt anyone would suspect JPM was the big silver and gold crook if it weren't for me).

But, at the same time, JPMorgan being the big kahuna of all things precious metals does not mean every single thing it does is crooked. JPM was the custodian for SLV from the inception of its creation, given the bank's century-old experience of storing precious metals (principally in London). That means that JPM was the custodian of SLV long before it took over Bear Stearns in 2008, which marked the start of the bank's criminal and manipulative control of silver and gold. Now if someone wants to advance the notion that JPM could foresee that it would come to take over Bear Stearns after being appointed custodian of SLV and this was all some master plan, tell it to someone who would fall for such nonsense.

I believe I understand the criticism of SLV, including the recent escalation of distrust. Such criticism has been evident since the introduction of both the SLV and before that of the big gold ETF, GLD. The criticism tends to revolve around wording in the prospectus and audits and, recently, the unusual (to say the least) physical flows of metal into and out from the trust. Most usually, the criticism comes from those offering alternative silver investments, not always fully disclosed.

The simple truth is if you feel distrustful of the SLV, GLD or any other silver or gold ETF, you would be foolish to invest there. It certainly makes no difference to me. Besides, there's no way I know of profiting from recommending SLV in terms of kickbacks and hidden commissions and most online brokers dealing in it don't even charge a commission.

Still, there is no question that SLV is the largest and most liquid silver ETF in the world and backed by perhaps the largest money manager, BlackRock. As such, I believe the recent criticism is likely to be little more than a tempest in a teapot• (although I am aware that the last person uttering those words was Jamie Dimon regarding the developing JPMorgan London Whale scandal a number of years ago). Besides, the few investors which may be convinced that the SLV is not to be trusted were most likely of that frame of mind before the recent criticism. I find it hard to believe that institutional investors would be dissuaded from SLV, given its aforementioned liquidity, history and backing.

So where do I get off suggesting that the SLV and other silver ETFs have been the silver investors's best friends? Since its introduction in 2006, SLV, along with other silver ETFs have added an astounding 1.1 billion oz of metal to their total holdings, more than 50% of all the silver in the world (in 1000 oz bar form). Over a slightly longer time frame (since 2004), the big gold ETF, GLD, along with other gold ETFs, have added approximately 100 million oz of physical gold to total ETF holdings. Please put these amounts into perspective.

Even though there is more gold bullion in the world (3 billion oz) than there is silver bullion (2 billion oz), the physical silver inflows to the ETFs has been more than ten times greater than that of the gold inflows. Why is this? As I've explained on numerous occasions, there is a much greater need to professionally store silver than gold • mainly because you get so much darn metal for your money with silver than you do with gold. Anyone can hold and store \$180,000 worth of gold (100 oz or 100 coins) without the need for professional storage if one can lift 7 lbs. Very few can hold and lift the 500 lbs. of silver you would get from the same \$180,000. • There's no hidden conspiracy at work here • for large amounts of money, professional silver storage is required and the silver ETFs fit the bill. So sayeth the market.

Therefore, those with a vested interest to steer investment money away from SLV and other silver ETFs to more personally-rewarding forms may succeed in doing so on a limited basis, but it seems unlikely to me that will change the course of higher net worth and institutional investors based upon the record of the past 15 years.

To that point, I'd like to steer the conversation to something I believe is much more important than the recent criticism of SLV. I have become convinced, based upon the same highly unusual physical metal deposit/withdrawal patterns in SLV, of something not presently being discussed, namely, how a large investor or investors are currently acquiring massive amounts of silver via the SLV and other silver ETFs.

Prior to the SLV and other silver ETFs, the best (only) way to accumulate large amounts of physical silver was by buying silver futures contracts on the COMEX and taking delivery. This was the method employed by the Hunt Bros 40 years ago and by Warren Buffett 22 years ago. But as time has evolved, buying COMEX futures contracts and taking delivery is no longer the only, nor even the best way of acquiring large amounts of physical silver.

The best way today of acquiring a large amount of physical silver is to buy shares of SLV (or other silver ETFs) and convert the shares into metal. Just like an investor can buy a futures contract and stand for delivery, an investor can convert shares of SLV into physical silver at will. Not only that, the process is easier, cheaper and more confidential in the SLV than on the COMEX. To be sure, there is a higher minimum threshold for taking "delivery" of metal from shares of SLV (50,000 oz compared to the 5000 oz or 1000 oz COMEX contracts), but for an investor seeking to acquire far greater amounts of metal that is no barrier.

Long term readers know I have highlighted the share to metal conversion process in SLV for years, although the practice is hardly discussed elsewhere. It occurred to me long ago that JPMorgan used the easy convertibility of SLV shares into silver as the principle means of acquiring the biggest chunk of its 1 billion oz accumulation of physical silver. Now I suspect the conversion process may be in play by others than JPM.

The way it works is this " an investor buys shares of SLV and afterwards simply tells his broker (or authorized participant) to convert the shares into an equivalent amount of physical silver. No muss, no fuss. For an investor seeking a truly large amount of physical silver, say 100 million oz or more, about the only thing to be concerned with (if one seeks to remain anonymous) is not to exceed the SEC's 5% share ownership public reporting requirement along the way.

What this means is that when you get close to the 5% ownership level (currently around 34 million shares), you just tell your broker or AP to convert a sufficient number of shares to metal, which brings your share ownership down. Doing this brings down the share ownership but increases the physical metal ownership proportionately.

The shares were already paid for so there's no additional cost. And the convertor now owns physical metal on a completely allocated basis and not lumped in with all other SLV shareholders. Yes, storage fees will be due on the physically stored metal (same as anywhere else), but at a cheaper cost than the 0.5% annual management fees collected by BlackRock. It's really a no-brainer for someone wanting to hold a large amount of physical silver. It's certainly what I would do if I had a few billion dollars lying around.

Since there's no reporting requirement for physical metal, there's no limit that I'm aware of to how much silver one can hold. If an outsider tried to buy "too much" silver via COMEX futures deliveries, I'm convinced the exchange insiders would disallow such a purchase. I can't see how that could be accomplished in SLV or other ETFs. In fact, the flow of data suggest to me such a large accumulation may be currently underway.

While I would in no way minimize the impact of Robinhood/Reddit buying in SLV recently, neither do I believe such buying was exclusively at play. That unexpected surge of buying also provided cover for a large investor or investors to put in play what I just described and my analysis of the inflows and

outflows of metal from the SLV bear this out.

First, there was the 110 million oz deposit into SLV, following the largest three day trading volume in history. Immediately following this astounding deposit, there has now been a 40 million oz withdrawal of metal from the SLV on much reduced trading volume and, essentially, flat prices. Not for a minute am I retreating from my allegation that the large deposit was clear proof of price manipulation and suppression by the sellers, but let's set that aside to explain the withdrawals.

The 110 million oz inflow, combined with the 40 million oz "outflow" is completely in line with a large investor or two accumulating a significant chunk of SLV shares and then, as the 5% reporting threshold drew close, a conversion of a good amount of the newly acquired shares were quickly converted into physical metal. What we can't know, but is entirely logical, is whether the buyers/converters are now done or are they just preparing for more buying (and more converting)?

As long as silver prices remain manipulated and cheap and the sellers are so hell-bent on keeping it that way, there is an open invitation to the recent or completely new buyers to take advantage of the short manipulators' accommodation. The manipulative shorts, in essence, are saying "come and get it boys" and there is fairly strong evidence the buyers are doing just that. The only question is how long the big shorts' suicidal game can continue. Common sense suggests not for very long.

The lynchpin in this equation is the amount of remaining physical silver that can be borrowed and sold by the big shorts, or just plain sold by JPMorgan, before the physical well is completely dry. There can be no doubt that the remaining supply is running low. How low? If there are no more than 500 million oz or so of silver bullion left in the world after one subtracts the 1.6 billion oz already in the ETFs and COMEX warehouses, then take another 100 million oz off that, leaving no more than 400 million oz left. Here's where it gets real interesting.

Against that 400 million oz of remaining silver bullion worth little more than \$10 billion or so, compare that to the many trillions and trillions of dollars of investment buying power, constantly being further inflated by trillions of dollars from government stimulus from the US, China and every other country in the world "with all that investment buying power seeking the next investment opportunity. Never (and I do mean never) has the large amount of world investment buying power so overwhelmed the amount of silver available for purchase. Did I say never?

Now add in credible evidence that a big investor or two may have picked up the scent and may, in fact, be putting in place a serious physical accumulation plan in play in SLV and the wonder, as always, is how long the few crooked shorts can keep the lid on price. Yes, I can see with my own eyes that the 4 big shorts are still desperately fighting to keep that price lid on silver, but increasingly, they strike me as being on the wrong side of what will be a historic move. I don't think the irony could be richer than at the exact time there appears to be a serious play for physical silver underway in SLV that renewed criticism of the ETF has also broken out. Who says the markets don't have a sense of humor?

I'd like to add one final and somewhat unrelated comment on SLV and other silver ETFs. It seems that not a week or even a day goes by without someone telling me (often in the form of a lecture) how the US government is behind the silver (and gold) manipulation. There can be no argument that by now, there is absolutely no way that the regulators, in the form of the CFTC and Justice Department, can't possibly not recognize the manipulation narrative. I still hold that the regulators do nothing about it due to having rejected the manipulation for so long that to fess up now would be devastating to

the organizations' reputation and survival (in the case of the CFTC in its present form). I've acknowledged that perhaps there is more to the story, but I've yet to run across tangible evidence of the deeper conspiracy asserted by many.

It now seems to me that the continued success and proliferation of the silver ETFs, as outlined above, is more a confirmation that the government hasn't orchestrated the manipulation from the get go, because if it did, why in the world would it have allowed the SLV and other silver ETFs to come into existence? The same argument applies to gold, but, as I hope I've established, the situation in silver is much more critical. If the government has some super-duper master plan in place that includes intentionally allowing SLV and other silver ETFs to suck in all the silver in the world, then who are these super-duper individuals behind it? Looking at who is running and has run the government in my lifetime, I have trouble understanding how the heck they could possibly conceive and implement a price manipulation spanning decades.

Turning to other matters, yesterday's new short report on SLV indicated a sharp reduction in its short position from 24 million shares to 17 million shares (ounces), as of Jan 29. I didn't know what to expect, torn between expectations of a decline due to the 20 million oz deposit back on Jan 20, or a sharp increase due to the price rally into Jan 29. I did say I would give it some time before reading too much into the data, but must say I'm mostly relieved that the short position is down to 2.6% of total shares outstanding and should it remain close to that, then there's no reason to rattle BlackRock's cage (and rile up its lawyers).

<https://www.wsj.com/market-data/quotes/etf/SLV>

As far as what to expect in this week's new COT report, price, volume and changes in total open interest suggest not much change. Gold prices sold off initially early in the reporting week, but recovered to unchanged by yesterday's cutoff. Silver was mostly flat pricewise and both featured low trading volume. Total open interest in gold declined by close to 13,000 contracts, but that appears to be related to ongoing deliveries in the Feb contract, while silver open interest was largely unchanged. Therefore, I wouldn't anticipate big positioning changes but will be sensitive to category changes which were quite dramatic in the current report. I would note that gold continues to trade below all three of its key moving averages, while silver continues to trade above its three key moving averages.

As far as the financial fortunes of the 8 big shorts in COMEX gold and silver, the rally in gold prices since Friday's close has added around \$800 million to their total losses, now amounting to \$12.5 billion.

Here's an interview I did with Daniela Cambone on Monday that was released last night

<https://www.youtube.com/watch?v=gL0VfudSx3M&feature=youtu.be>

Ted Butler

February 10, 2021

Silver – \$27.20 (200 day ma – \$23.08, 50 day ma – \$25.65, 100 day ma – \$25.00)

Gold – \$1846Â Â Â Â (200 day ma – \$1855, 50 day ma – \$1856, 100 day ma – \$1875)

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