

February 21, 2018 – Too Good To Be True?

I made public the portion of last Wednesday's report titled, "No Manipulation, After All?" in the hopes it would encourage those not entirely familiar with my allegations of a silver manipulation to get more interested. Come to think of it, that has been my primary objective for more than 30 years.

<http://silverseek.com/commentary/no-manipulation-after-all-17103>

One of my intentions in writing both publicly and for subscribers is to solicit opinions that take issue with what I write. Don't get me wrong, it's great to hear from folks who agree with me, but it's hard to learn much from those in agreement. It seems the only real chance of learning something new is from those who take issue with how you see things. That was the point behind the recent article, patterned after Ray Dalio, titled "Thoughtful Disagreement". I'm not interested in a heated personal disagreement (I get riled up enough from the daily news shows), but welcome rational and unemotional debate on the issue of silver price manipulation.

<http://silverseek.com/commentary/thoughtful-disagreement-16878>

I did receive one disagreement to "No Manipulation?" that I'd like to discuss. It was from someone who claimed (quite sincerely in my view) to have once believed in the silver manipulation, but no longer was that the case. His sincerity notwithstanding, his alternative explanation for why silver prices behaved as they did over the past ten years wasn't at all compelling and I'll not get into it because it wouldn't add much to the discussion. But he made a few convincing points in criticizing my version of the silver manipulation that got me to thinking.

His main point was that the COMEX/JPMorgan silver manipulation allegation seemed to be held most fervently by those who were sellers of silver; those engaged in the retail trade of selling metal and coins to the public. To be sure, there is much truth to this assertion. In my own case, it's quite true that I have consulted and have been compensated by Investment Rarities, Inc. (IRI) for more than 17 years for allowing them to publish some of my work, although there has never been any direct compensation (commissions) because I don't sell anything to anyone. More to the point, I first started complaining to the regulators (the CFTC and the COMEX) about a silver manipulation for 15 years before I started writing for IRI and I certainly wasn't selling silver more than 30 years ago either.

Still, the charge that sellers of silver and gold on a retail basis are strong proponents of the price manipulation rings true, even though that was never my prime motivation. That said, I was never blind nor turned off by the win-win aspect of getting investors interested in buying physical silver, since it would hasten the day of the physical resolution and greatly reward silver investors (besides being the safest form of a silver investment). However, I'd be lying if I said I had no doubts that all those who promote the silver manipulation are similarly motivated.

I believe the critic's real beef was that the silver manipulation had gone on too long and he had grown tired and was searching for any alternative explanation. While I empathize with the critic, it took me a day or two to finally grasp what his real gripe was. I know it sounds a bit strange at first but, in

essence, he was complaining that the silver manipulation allegation was too good of a story. So good, that those in the business of selling silver to the public were using it as a promotional tool. His contention that the silver manipulation had lasted as long as it has must be taken as proof that the story couldn't possibly be true. Not only is this a new one for me, it has elements of truth.

No one can deny that more observers than ever before find the allegations of a silver manipulation existing to be true. Likewise, no one can deny that despite more believing in the silver manipulation, their numbers are microscopic compared to the universe of investors not remotely aware of the issue. The story may appear to be too good to be true, but it's much closer to the truth to say that it is still largely unknown. I'd like to explore why that's the case because if the story is true (as I know it to be), then the moment enough recognize and take advantage of it, the manipulation will start to self-destruct. Certainly, I know that the vast majority of the world's investors will never and could never become aware or take advantage of silver (because there's nowhere enough to go around). But there is a critical and much smaller number of investors, at the margin, who will make a difference at some point. Why haven't we hit that point yet?

Let me start by taking my share of the blame. The silver story isn't too good, it just hasn't been promulgated – promoted – widely enough. Primarily, that's because I'm an analyst, not a promoter. There's nothing wrong with self-promotion and I wish I had more of the self-promotional gene, but I don't and that's unlikely to change. Truth be told, if Jim Cook from IRI hadn't started to publish my work in late 2000, I doubt you would be reading this now. I would also doubt that the silver manipulation story would be known by those that do know it.

Of course, it's not all my fault that the silver manipulation story is so good or that it still exists. It's a fact of life that price dictates collective investor behavior, so JPMorgan's death grip on the silver market via its dominant COMEX short positioning has had the added effect of keeping outside investors at bay and the real story from spreading. For the same time that silver has languished in price for seven years, most other investment markets (stocks, bonds, real estate, art, etc.), have boomed. Why would anyone in the broad investment world consider silver when money seems to be falling out of the heavens from other markets? Price is self-reinforcing (until it changes).

Other factors why the silver story hasn't spread more is that it's coming from a segment of the market very much at odds with the conventional market establishment. While more well-known market participants (like Jeff Gundlach) have recently embraced silver and gold as an investment, none to my knowledge, has cited the ongoing silver manipulation. I would expect that any such high-profile endorsement could kick off a much greater awareness. Within the alternative precious metals media community (of which I'm a part) the manipulation story is promoted, but too often with twists that tend to result in different versions being presented. Unfortunately, this tends to diffuse the message.

For the record, here's the real silver manipulation story. Silver has been manipulated in price by virtue of excessive and concentrated short selling in COMEX silver futures for close to 35 years. Ten years ago, the manipulation took a dramatic turn, when JPMorgan took over Bear Stearns, the largest short seller in COMEX silver and gold futures at the time (March 2008). JPMorgan continued the manipulation tradition (sell short as many contracts to blunt speculative buying as required) into the great run up of April 2011, when a developing physical shortage caused silver prices to soar to near \$50. JPMorgan weathered the run up and was able to turn silver prices down sharply starting May 1, 2011, but decided that the prospects of an eventual shortage were real enough that it began to

accumulate physical silver. JPM decided to acquire physical silver while maintaining its control on price via its dominant, but ever-changing paper short position. All told, JPMorgan has amassed 700 million oz of physical silver over the past seven years (plus 20 million oz of physical gold) at bargain prices and while milking billions of dollars in paper silver and gold profits from the short side. The most plausible explanation for why JPMorgan has accumulated so much actual metal is to score a profit of historical proportions.

The story may appear to be too good to be true, but as I have observed on countless occasions, it is replete with facts that couldn't possibly be imagined beforehand. JPMorgan's accumulation of physical silver (and gold) is the crown jewel in a manipulation story that sounds too good to be true, but is as real as rain. Clearly, JPMorgan will decide when it is holding a large enough physical metal (and a small enough paper short position) to set the price free, but is there anything any of us can do to hasten that day?

A recent email exchange with a subscriber offered a number of suggestions for getting greater exposure for the real story (thanks Steve). So let me open it up for any suggestions anyone may have to expose the story at this point. There's no question that the manipulation will end and likely soon, but the timing can never be known for sure and all we can do is, apparently, sit and wait. I do believe the timetable might be advanced by the right amount of exposure, but as I said, I'm an analyst, not a promoter. So if you have any suggestions for increasing the exposure for a story that sounds too good to be true, please send them my way.

On to developments since Saturday's review. Usually, I reserve COMEX warehouse and delivery data for the weekly review, but after two days (Monday was a holiday), there still have been no gold deliveries issued in the February contract and open interest has remained above 1100 contracts. It's now been well more than a week of no gold deliveries in which no one has blinked or moved to resolve that which must be resolved by month's end. It still looks like JPMorgan holds most, if not all of the remaining open contracts on the long side with unknown shorts on the other side. It would appear someone will have to blink unless delivery obligations are met in some way.

Also in the JPMorgan Department (what gold and silver factor, exactly, isn't in the JPM Dept.?) was the news that another 1.6 million oz of silver were brought in to the bank's COMEX warehouse, increasing the amount there to 135.3 million oz. This is even more than I expected a month or so back and I should point out it might be indicative of JPM accumulating more silver than I claim it has acquired. In this case, there were a couple of million oz of COMEX spot month open interest that were put on and taken off recently that could very well be privately negotiated delivery transactions by JPMorgan to acquire more physical silver.

I'm still struck by the thought that JPMorgan is unquestionably scooping up physical silver in the most transparent means possible, namely, taking delivery on futures contracts and then moving that silver into its own COMEX warehouse. This is the silver accumulated in full view. Knowing how JPM operates, would they not also be acquiring physical silver by means less transparent? That's the basis for me thinking my 700 million oz estimate may be low.

In a development not directly related to silver, but emblematic of what can occur in any widely consumed commodity, I was fascinated to learn of a chicken shortage in the UK. Admittedly, my

concern about the logistics of the modern day supply chain in silver has been long held, as evidenced in this old article from 16 years ago (I had a heck of a time finding it). The article, "Running on Empty" described how fragile was the modern day supply chain and I used the example of taking my son, then a 23 year-old student/worker, out to buy a pair of Timberland boots.

http://www.investmentrarities.com/ted_butler_comentary03-05-02.shtml

Ross is now a 39 year-old pilot for a cargo airline, so my senses naturally perked up when I read how hundreds of Kentucky Fried Chicken outlets had to close in the UK, due to a shortage of chickens caused by a foul up in a recent switch to a new air provider, DHL (not my son's employer). This just confirms my contention that the supply chain lines in any commodity can be suddenly disrupted for a variety of reasons. The difference with silver, of course, from chickens and just about every other commodity, is that any supply disruption can easily lead to a rash of investment buying, further exacerbating a potential melt-up in prices.

Yesterday's sharp downturn in prices for silver and gold capped off a reporting week that had been higher in price until Friday's late selloff. As such, it is most reasonable to expect managed money buying and commercial selling in both gold and silver through Friday, but the reverse through yesterday. Therefore, it would be little more than a WAG (wild-assed guess) as to what this coming Friday's report will indicate. Since gold stayed above its key moving averages on the selloff, while silver barely penetrated its key moving averages (the 50 and 20 day ma's) on the rally before selling off, I wouldn't be surprised to see some managed money net buying in gold, where I just don't know in silver. I'm sure I don't need to add that I'm hoping for no managed money net buying in silver and would greatly prefer net selling and commercial buying. As has been the case recently, the trader category details should be of interest.

Regardless of what Friday's report indicates, the market structure in gold should still be neutral/bearish, while silver will still be in an extremely bullish structure. Can the silver market structure get even more extremely bullish on lower prices and increased managed money selling? You betcha. Can the commercial COMEX price riggers orchestrate a deep flush out in gold, thereby triggering sympathetic selling in silver? Again, highly possible. Is JPMorgan now holding enough physical silver and gold to allow prices to explode upward at the expense of anyone caught short? That's the possibility that keeps me fully invested - that plus the fact that silver is as cheap as dirt (and not any highfalutin organic stuff either).

Unlike last Wednesday's rally, which most likely did involve managed money buying and commercial selling, I don't detect much managed money buying on today's rally in silver, based primarily on subdued trading volume and the fact that we've remained below silver's key moving averages. It's somewhat futile studying every price wiggle and jiggle, but it's also hard not to.

Ted Butler

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Silver @ \$16.50 (200 day ma - \$16.83, 50 day ma -\$16.72)

Gold - \$1326 (200 day ma - \$1284, 50 day ma - \$1313)

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