

February 25, 2015 – Investment Boom/Big Buyers

Another Silver Investment Boom Coming?

Seven years ago, I wrote an article in which I anticipated a developing surge of investment buying in physical silver which would drive prices higher. At the time, January 2008, silver prices were close to where they are currently and we were entering the most dramatic period in silver history in which the largest silver short, Bear Stearns, was about to go bankrupt and was rescued by JPMorgan who then took over as the big COMEX silver short. While I didn't know any of this at the time of my article, silver prices would subsequently fall and rise and fall dramatically over the next seven years, largely influenced by JPMorgan's market dominance since March 2008.

Even though JPMorgan has continued to dominate the world of silver, a surge of investment buying did account for the subsequent run up in silver prices to near \$50 in early 2011, much as I outlined in my original article. For instance, large investment buying of more than 300 million ounces in various silver ETFs was clearly the greatest influence for the historic price rise into 2011, to say nothing of retail coin and bar buying. Without this investment buying boom, silver prices would never have increased as they did.

http://www.investmentrarities.com/ted_butler_comentary/01-22-08.html

I've been thinking about that old article in light of current financial circumstances and I can't help but conclude that the conditions for another investment surge in silver may be more firmly in place today than they were seven years ago. Back then, we were just entering the financial crisis and conditions today are very different in many ways. Interest rates were vastly higher back then and stock and market real estate valuations were much lower. Today, interest rates are the lowest in our lifetimes and stock market valuations are the highest ever.

There is no great mystery that stock market and real estate values are up because interest rates have been intentionally depressed by US and world financial authorities to stimulate lagging economic growth. When interest rates approach the zero percent level, investors are driven to assets that promise higher returns. The low interest rates further encourage leverage or the borrowing of money to increase the returns on other assets. When investors can't get decent returns in the form of interest, they must go elsewhere to achieve higher returns. And if it turns out that stock and real estate values increase as investors switch from low yielding interest bearing deposits, then the increase in stock and real estate values becomes stronger and self-reinforcing; pretty much as has occurred over the past five years. Of course, at some point those assets can become overvalued and much more risky.

Silver and gold are also alternative assets to depressed interest rates, just like stocks and real estate; but because they rose faster and further into 2011 and, yes, because they were deliberately manipulated lower thereafter, there has been no self-reinforcing add on investment buying in precious metals that comes with rising prices. Then again, because precious metals prices are lower, there is much less concern about overvaluation currently.

The fact is that interest rates are low and likely to stay that way for the foreseeable future and investors seeking higher returns will continue to be forced to look at non-interest bearing assets, including precious metals. This is one key to my return of the silver investment boom premise. There is no doubt that there is infinitely more investment buying power in the world today than there was seven years ago (or ever before). The first key is the absolute mountain of world investment buying power that exists today, much greater than at any point in history.

The second key is the shockingly tiny amount of physical silver that is available for potential purchase. Not for a minute am I suggesting that the world investment community will suddenly and collectively wake up to the actual merits of silver. Instead, I'm assuming only the tiniest percentage will gravitate towards silver, the same as has always been the case; no more, no less. This is strictly a simple financial equation; an unknown, but very tiny percentage of the many trillions of dollars of total world investment buying power attempting to flow into a unique and specific asset that couldn't possibly accommodate such buying without exploding in price. The trick to comprehending the essence of this financial equation is in quantifying first how much physical silver is available to be purchased before the impact on price is inevitable. Then, converting that physical quantity into dollar terms.

I'm convinced that if a single entity or some small percentage of the world investment community as a whole tried to buy 100 million ounces of physical silver within a reasonably short period of time, say two or three months, that would so unbalance the actual supply/demand structure in silver so as to cause an unavoidable price rise of 50% (\$8 to \$10 an ounce) or more. In terms of physical material, a purchase of 100 million ounces in a fairly short time frame would set the silver market on its head, seeing as only 75 million ounces of silver are produced and consumed monthly worldwide and 100 million ounces would constitute a full 10% of all the silver bullion inventory in the world. From every possible angle, 100 million ounces is a very large amount of physical silver.

But when 100 million ounces of silver are converted into dollar terms (at current prices), that comes to less than \$1.7 billion. In world investment buying potential terms, \$1.7 billion is so small that it isn't even a rounding error. Two billion dollars is only 0.2% of a trillion dollars and there are many tens of trillions of dollars of current world investment buying power. And world investment buying power is growing daily. At the core of my premise of another investment boom returning in silver is the stark difference in practical terms of what 100 million ounces of silver represents in physical terms and what it represents in dollar terms.

This is also what separates silver from gold. \$1.7 billion in gold amounts to less than 1.5 million physical ounces, an amount that might move the gold price a percent or two if transacted on a single day. That amount of money flowing into physical silver on any one day would cause the price to double, in my opinion.

The premise of the return of a silver investment boom is rooted in the absolute mountain of world investment buying power aligned against what can only be called an anthill of the money that could flow into silver on a moment's notice. But when that anthill of money is converted into terms of physical silver ounces it is extraordinarily large in practical terms. This is just another way of saying that the price of silver is way too low and is not likely to stay that way for long.

Where are the Big Silver Buyers?

The financial equation I just presented, namely, the amount of potential world investment buying power being almost limitless with the amount of physical silver available for purchase being severely limited begs the question "why hasn't some big buyer stepped into silver yet? After all, there are many thousands of individuals and entities who could plunk down less than \$2 billion on a cash basis and infinitely many more who could do so on a leveraged basis. One of the reasons I've used 100 million oz is because that was the approximate amount purchased on the two prior occasions someone big bought silver (the Hunts circa 1980 and Warren Buffett in 1997).

I've covered this before, so let me confine my remarks to some new thoughts on the matter, as to why someone new and big is bound to take a run at silver and why that has not happened yet. A reader suggested perhaps the silver market was simply too small for anyone to even try, but we're still talking in terms of billions of dollars.

One of the biggest impediments, in my opinion, as to why a big buyer hasn't emerged yet is because silver is such a universally recognized word, basic element and historical item, that it is a rare person who doesn't have an existing opinion about it. Predisposition serves to block out new thought or objective analysis in anything and we're all guilty of letting our prejudices block us to new ideas. If you already hold an opinion about something, you are automatically receptive to suggestions that agree with what you believe and unreceptive to suggestions that disagree with what you believe. This may be even truer with those who hold or control great sums of money, because, due to past success, existing opinions in the well to do and powerful may be even more strongly held than in those less well off.

Further, the most glaring feature of silver (to me anyway) is that its price is manipulated and this idea generally elicits almost immediate rejection by large market participants. Almost to a man (and woman) they find it preposterous that an ongoing price manipulation could occur without them being aware of it. In essence, it comes down to "how could silver be manipulated in price and everyone be unaware of it, except you?" I understand this reaction, since I've faced it for decades and it's the sure sign of a closed mind and of the futility of trying to engage in a reasonable debate. Also, ego enters it as well, in the sense that once manipulation is rejected out of hand, it must stay rejected lest someone must admit to being wrong previously. This is a common trait among many mining executives.

Finally, many of those who have come to embrace the fact that silver is manipulated and who openly comment on it also feel compelled to add in unnecessary embellishments that make the whole thing sound like a kooky conspiracy theory. It would be so much more convincing if they stuck to the bedrock facts of the COMEX manipulation and the concentrated short position.

But this is an explanation for why someone big hasn't emerged as a silver buyer yet, not a suggestion that will always be the case. And even if no big buyer ever emerged, that's not the end of the world as, to my knowledge, there was no big buyer on the last run up to \$50 in 2011, strongly suggesting none would be required on the coming go around. Admittedly, however, the presence of a big buyer or two would seemingly facilitate the next silver surge and there is good reason to expect a big silver buyer or two to emerge at some point.

Despite the apparent predisposition of large buyers to reject, until now, the idea that silver is artificially depressed in price, the main countervailing force is the premise of the financial equation I outlined above. 100 million ounces of physical silver, when purchased in a relatively short time frame, either is a significant amount that would impact price or it isn't. Either \$1.7 billion is a very small amount compared to world investment buying potential or it isn't. Putting aside my own feelings, this is a simple equation that should transcend existing personal bias.

It seems highly plausible that of the many thousands of individual and corporate entities capable of investing less than \$2 billion in physical silver that one or two might emerge in time. Even more amazing is that there really isn't room for more than one or two big buyers. It would seem impossible for, say, ten such buyers to purchase, for a combined \$20 billion, one billion ounces of silver bullion because that's all that exists in the world and little of that is available for sale at current prices.

This is what makes silver so special \hat{A} ? the dollar to physical ounce conversion. Please consider what the \$20 billion that would buy up the entire one billion ounces of silver bullion (1000 oz bars) in the world would buy in gold. At current prices, \$20 billion would buy less than 17 million ounces of gold, an amount that would no doubt influence the price of gold immensely, but at the same time only represents less than 1% of all the gold bullion in the world (3 billion oz of gold bullion, not the 5.5 billion oz of all forms of gold). Again, this is a simple financial equation – what would have more price impact, the purchase of 100% of what exists in the world or the purchase of less than 1% of what exists in the world?

For those potential big buyers which decided to look more closely as a result of answering the question as to why so much physical silver could be bought with so little money, the answer is also simple and easily documented. The answer is because 8 or less crooked traders on the COMEX are short the equivalent of 325 million oz, or more than 40% of annual world production and a third of all the silver bullion that exists. No other commodity has such an extremely concentrated short position and if this short position didn't exist, the price of silver would be much higher. And at current depressed silver prices, who in their right mind could legitimately hold such a large short position? If any number of potential big buyers make it to this point with an open mind, it would be easy to verify what I claim, since the data are published weekly by the CFTC.

Sometimes I think the silver financial equation for a potential big buyer is so easily quantifiable and verifiable, that it may be, in fact, too simple on its face and that presents an obstacle for deeper investigation. Then again, it wasn't too simple for one of the world's most respected large investors, Warren Buffett, some 18 years ago. For Buffett, it was a simple matter of a vital commodity priced too cheaply in respect to its actual supply/demands fundamentals and the small amount that remained in world inventories. Considering that there is a lot more investment buying power in the world today and perhaps a lot less in world silver inventories, the stage would appear set for a new big buyer to emerge.

For any prospective large buyer, one lesson that should be learned from Buffett is the need to purchase and hold physical silver. Had Buffett simply held onto the paper COMEX futures contracts bought for him (to establish his position) and was not converted along the way into physical silver, I doubt the price would have moved much (instead of doubling) or that the world would have ever come to know that Buffett bought over 100 million oz. On a practical basis, there is no limit as to how much derivative (paper) silver could be sold to any buyer, but the amount of actual physical delivery is very much limited to what existing holders are willing to part with. Holding physical silver puts the practical law of financial physics on the buyer's side.

One last reason why a big buyer in silver could and should emerge. While all large investors are in it to make as much money as possible, there are often other considerations that push them to maximum investment performance, including philanthropy, political influence and making the world a better place. There is also the matter of legacy and personal reputation, even after one has departed this vale of tears. Being remembered as the investor who broke the back of the silver manipulation and scored billions in the process wouldn't seem to be such a bad legacy.

I'd be remiss if I didn't mention my speculation that JPMorgan has amassed upwards of 300 million oz of physical silver over the past four years in the big buyer discussion. JPM is the most powerful and, in many ways, the most sophisticated trader in the world. I would also add most connected and crooked. This bank, in my opinion, controls the silver market. How they accumulated as much silver as I claim they've acquired is a testimony to their skill, power and treachery. But not even JPMorgan was able to buy 100 million ounces of physical silver in a short time (aside from the first big price takedown in 2011).

If JPM did buy as much physical silver as I allege, that tightens the physical market even further and makes the price impact of the next big buyer that comes along more potent. It also validates the big buyer premise because JPMorgan wouldn't buy that much silver if it wasn't looking to score. And while it does create the possibility that JPMorgan could then sell the physical silver it acquired to the next big buyer which comes along at discounted prices, in reality that would only occur if JPMorgan sold the silver it accumulated at a loss and, in effect, subsidized the next big buyer's purchase. That would not be in keeping with JPMorgan's reason for existence.

A few words regarding the news stories this week on the Justice Dept. and CFTC investigating ten large banks in connection with precious metals manipulation. The stories seem to suggest some urgency or new development, but the investigation has been ongoing for some time and appears to be centered on the London Fix. I suppose some wrongdoing could eventually be uncovered, as whenever big bankers convene in private, it is time to have a firm grasp on one's wallet. But any precious metals investigation not centered on the COMEX is a sideshow. Needless to say, I hope I'm reading it all wrong, but there is very little chance the CFTC is about to do a turnabout and address the concentrated short position in COMEX silver. The same goes for the DOJ. Both agencies have looked at this matter, then looked away and aren't about to look again, much to their joint shame. Physical investment buying will break the back of the manipulation, not some wimpy and bought and paid for regulators.

Finally, there was likely some further improvement in the COT market structure thru yesterday's cutoff for the reporting week, in that there was further speculative and technical fund selling and commercial buying on the series of new price lows in gold and silver to be reported in Friday's release. However, the overall decline in price this week was muted and COMEX trading volumes were not large, suggesting the reduction in the total commercial net short position was not as large as the two previous reports, at least in gold. One wild card is that there was a significant price decline on high volume on the cutoff day of the previous COT report, raising the possibility that not all of the speculative selling and commercial buying in that report was recorded in a timely manner and may show up this week. That's a cute way of saying I'm not sure of how much commercial buying occurred this week.

Ted Butler

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Silver – \$16.50

Gold – \$1204

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