

February 4, 2015 – Keeping the Complicated Simple

Trying to Keep the Complicated Simple

It occurred to me from reading the rapidly growing commentary and discussions about the COMEX and the Commitments of Traders Report (COT) that many seem to have come to grasp just what the silver (and gold) price manipulation is all about. However, given the complexity of the subject, there is not yet enough of a collective understanding in place to end the silver manipulation. But let me be clear – there will come a point when enough observers come to comprehend the real story in silver and the manipulation will no longer be possible.

As I've long maintained, since I am advancing the idea that silver has been manipulated in price, it is my responsibility to try to explain it as clearly as possible. Therefore, no question is off limits and, as a matter of fact, I spend much of my time contemplating what may be on readers' minds. Since there is nothing better than receiving actual questions, let me replicate, completely unedited, this recent email ^?

Ted,

Apparently, there's a lot more people (in numbers) who own/hold physical silver vs. the number of speculators (the big 8) who are shorting it. I realize the few who are shorting silver^ short more silver (in volume) than is held by the masses.

The people who own the physical...make nothing on it, unless the price goes up. How are the people who are shorting it, making money? How much money? If you follow my train of thought here, can you explain this concept to me? (Or say something about it in your newsletter, if you thought it useful)

I'm curious to know, how much money do they (the big 8) make shorting silver? With there being such a small amount of physical silver in existence...compared to gold, wouldn't it be financially beneficial for them to go long on silver? It seems like they are playing on the wrong side of the tracks!?

Obviously, I don't understand the whole concept of shorting silver to such a large degree. It seems to me (given the way I've come to understand the principles of silver as I do thanks to your newsletter), that they are wagering these large sums of money to keep the price of silver down and profiting from it.

They're taking a lot of risk, especially if the price suddenly escalates. The stress alone would drive me crazy! It just doesn't make sense to me to try and hold the price down!!!

Apparently, they just can't do an about face! I'm guessing that would not be possible!? Or, is it? What would happen if the big 8 shorts converted to long?

Could they survive? Would the losses outweigh the gain that could be made from rising prices? Surely, if they changed direction, the prices would rise!

I wondered if they could take a hit by covering their shorts, and making it back on rising prices!

I apologize for being a little weak in my understanding of how this whole thing works! I'm hoping you can help me understand it better without putting you through too much effort.

JD

John asked a lot of good questions and touched on many issues. Let me start by pointing out that there are, basically, two different types of silver and two different silver markets. There is real or actual metal silver and silver in the form of derivatives contracts. Real silver is the metal held by investors (in coins or bars), used by industrial consumers or fabricators and produced by miners and recyclers. A silver derivative is a legal contract that promises to either deliver (if short) or accept (if long) real silver at some point in the future, unless the contract is closed out or terminated early (as happens in close to 99% of the time). In essence, a short is a bet prices will fall and a long is a bet prices will rise. In other words, there is a big difference between real silver and bets on silver's price direction.

There are a number of different silver derivatives contracts, but the only one that really matters is COMEX futures contracts because it is the largest, most verifiable and most transparent of all silver derivatives contract markets. John is correct that many more investors hold actual silver (and gold) than the shorts hold derivatives contracts, but he is mixing apples and oranges. Except in limited circumstances (leasing and shorting in SLV) real silver can't be short sold — the only way to sell real silver is if you first own it. In derivatives contracts, there must be a contract held short for every contract held long and you don't need to hold real metal to go short (since it's just a paper bet). The 8 big shorts on the COMEX are holding short contracts against other COMEX derivatives (paper) longs, not holders of real silver.

Where John is correct is that the bulk of COMEX derivatives contracts held short is held by relatively few (8) traders and this concentrated short selling is so large that this is why silver prices are so low. The amount of concentrated short selling in COMEX futures contracts is so large that it, single-handedly, is the cause of low prices for silver in both forms and markets, real and derivative alike. That's absolutely crazy and illegal, according to US commodity law and is like the tail wagging the dog and not the other way around.

It is also a textbook example of price manipulation because a few COMEX short traders are setting the price of silver for everyone in the real world — investors who hold silver coins and bars, ETF investors and mining companies that produce silver. The CFTC (and the CME) should be all over this, but because they never acted sooner, it would be too damaging for them to acknowledge the manipulation now. Having tried to get the regulators to end the concentrated short position on COMEX silver for decades with no success, it seems unreasonable to expect regulatory relief now.

As far as how much money the 8 big shorts make on their concentrated short position, the answer is two-fold – the actual amount of money made and the real reason they remain short. Over the past year or so, the 8 big shorts have increased their short position (now at 65,000 contracts or 325 million oz) by 15,000 contracts or so on silver price rallies and have then bought back those newly shorted contracts on engineered price declines of a few dollars, making profits of \$200 or \$300 million collectively on a number of occasions. This is a lot of money and I can understand anyone thinking this is the prime motive behind the concentrated short position and the silver manipulation.

But at the same time, these profits are only achieved by engaging in the most serious of all market crimes – price manipulation. Over the past few years, there has been an avalanche of regulatory actions and fines against financial institutions, like JPMorgan, for engaging in a variety of wrongdoings. As a result, financial institutions have become sensitive to continuing to do that which has cost them dearly; none more so than JPMorgan, which I have openly referred to as the chief COMEX silver short manipulator. Therefore, I have become convinced that JPMorgan's share of the collective continuing take by the big 8 shorts in silver is not the driving force for why the manipulation goes on. It's not just profits on short positions that keeps the big concentrated short position intact. If it isn't continuing (illegal) profits, then what is it?

Leaving aside my speculation that JPMorgan has used the depressed price of silver over the past four years to amass the largest physical silver stockpile in history (which I still believe), there is a more compelling explanation for why the concentrated short position in COMEX silver has remained the largest (in terms of annual production) of all commodities, no matter what the price may be. The real reason for the continued existence of the concentrated short position in COMEX silver is because it can't be dissolved without fireworks to the upside. In simple terms, the big shorts are stuck and have been stuck for many years, even as they continued to rake in profits.

That doesn't mean that these big 8 shorts won't engineer a sharp selloff in which they buy back and cover a good number of newly shorted contracts; based upon past experience, that has to be the odds on favorite short term outcome. But John is asking, in essence, the most important question, namely, why do these 8 big traders remain so heavily short? The answer is that they have no choice. Forget about them buying to the upside causing silver prices to explode, even if they simply refrained from adding new silver shorts on price rallies, the price would explode.

That's why I have been so repetitive over the years, whenever silver prices have declined and the 8 big shorts have bought back a good number of their short positions, that all that matters on the next rally is whether the big shorts then add to their concentrated short position or not. On more occasions than I care to remember, it always came down to the price would get capped if they did add shorts or explode if they didn't. Unfortunately, these crooks, led by JPMorgan, always did add shorts and succeeded in capping the price and prolonging the manipulation. And, as I have remarked previously, the additional concentrated short selling has occurred on lower and feebler rallies. This last burst of concentrated short selling occurred below the average primary cost of production, emphasizing the uneconomic and manipulative nature of the selling.

I know this is a complicated issue and many share John's questions of how this can be, but I am making it as simple and black or white as I can. Silver has been and is manipulated in price due to a large concentrated short position held on the COMEX by 8 or fewer traders, mostly banks and financial institutions. The price manipulation is so entrenched that the big shorts can't gracefully dissolve their large concentrated position without creating a disorderly market. They have to cause the price to fall sharply in order to induce enough selling so that they can buy back a portion of their short positions profitably. If they refrain from adding new shorts on any price rally, the price will run away to the upside.