

February 9, 2011 – Leaving \$10 Billion on the Table

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I will try to be very careful how I present today's new thought. Regular readers know that I don't publicly criticize others, preferring to just analyze things as I see them. If I operate by any simple credo, it is this: don't knock others, don't tout yourself. That rule certainly applies to criticizing others who have done extremely well. So please don't interpret the following as me finding fault with someone who reportedly just made \$5 billion over the past year. I'm happy with how things turned out over the past year, but I must confess that I fell quite a bit short of making \$5 billion.

That's the amount being said to have been made last year by John Paulson, of hedge fund fame. It has also been reported that much of Mr. Paulson's personal gain came from his timely investment in gold and gold-related securities in his various funds. Further, Mr. Paulson had previously achieved stunning returns betting against subprime mortgages a couple of years ago, thus proving he was no one-hit wonder. So please do take my observation as somewhat tongue-in-cheek.

If Mr. Paulson had invested in silver, instead of gold, his returns would have been three times better; he would have made \$15 billion, not \$5 billion. Thus, he left \$10 billion on the table. Please check my calculations. When Mr. Paulson was first reported to have taken his stake in gold and gold related securities, the price of gold was in the \$900 range and silver was around \$11. Let's get specific: on Jan 1, 2009, gold was \$874.50 and silver was \$11.08. At year-end 2010, gold was \$1421 and silver was \$30.90. In percentage terms, gold gain 63% in those two years, silver 179%. One year returns show the same 3 to 1 outperformance favoring silver. That's for metal; silver mining equities recorded even greater relative returns to gold equities over those same time periods.

I'm not trying to trick anyone with these calculations, as they are as straight forward as can be. I'm also not trying to single out Mr. Paulson, as many famous hedge fund operators also took a big plunge into gold and ignored silver. When you think about it that is nothing short of incredible. After all, it may have been a drastic change for a hedge fund that had previously confined itself to financial instruments to make the leap to buy gold for the first time. But once a decision was made to buy a precious metal, how big is the leap to looking at other precious metals? There were certainly enough similar investment vehicles to choose from, including futures, ETFs, mining equities and straight bullion in both gold and silver at the time the big hedge funds moved into gold. Yet all the biggies concentrated on gold exclusively and ignored silver. I can't begin to tell you what good news this is for silver investors.

For one thing, it is good news that the big hedge fund community hasn't bought silver yet because if and when they do buy, only then will their buying influence have an upward impact on price. In other words, it is better that they haven't bought yet in terms of future potential gains for the price of silver. Plus, since they haven't bought silver yet, they can't dump it by selling en masse. This cannot be said about gold, where the hedge funds could decide to sell, since they have already bought. From a strict risk/reward equation, no buying yet from the hedgies in silver is all good news.

It's also good news that the "little guy" happens to be the clear winner in silver at this point (although I personally know many who have made many millions of dollars so far). I know for a fact that many tens of thousands of ordinary investors had taken the time to study the facts in silver and acted on that study by buying silver. That they have been (and will continue to be) amply rewarded is one of greatest feel good investment stories of all time. It's not every day that the little guy gets his ahead of the big guys. I can't begin to tell you how fortunate I feel for any role I may have played in convincing people to buy and hold silver over the years.

Turning to current market action, all I can say is so far, so good (he said as he looked over his shoulder). The price of silver has performed more or less as expected, namely, with an upside bias. We are now through all the moving averages in silver to the upside, so there is a good chance that the recent correction may be behind us. And while the facts continue to suggest that gold should be switched into silver, the set up in gold from a COT market structure basis looks very constructive for the upside as well. I can't help but think that when gold crosses its 50-day moving average (now around \$1374), not only should it propel gold to the upside, but such a move might serve as an additional turbocharger for silver.

The only potential fly in the ointment is the same potential negative we have always been faced with, namely, the dirty rotten crooks on the COMEX, led by JPMorgan and the other big commercial shorts. Recent increases in the open interest on rising prices might mean that these big commercials may have increased their short positions, after notable recent reductions. There is no way of knowing for sure, until we can analyze the COT data on Friday. I'm hopeful that the big shorts have not added more short positions, but these entities, as well as the CME Group, are so manipulative and crooked that nothing can be put passed them. For sure, if the big concentrated shorts have put on additional shorts it is solely for manipulative and price-capping reasons. Such uneconomic selling is strictly against commodity law. In that case, I can understand the CME Group allowing this to occur, as it is a criminal enterprise as far as I can tell; but I will be saddened if the CFTC sits by and lets this occur.

Let me be as clear as I can be. I don't know if the big commercial crooks will institute a sell-off at this point. That is impossible to know. What I am saying is that if we do sell-off from here, it will only be because the big commercial short crooks rigged the market lower for their own advantage. The true supply/demand fundamentals dictate much higher prices for silver. The only thing that could possible cause a sell-off is actions by the big COMEX crooks. I know I say this repeatedly, but I ask you to think about it again. I think we are all much better off knowing the true story in advance, namely, the explanation for a sell-off, should we get one. Such a sell-off won't be because we suddenly had too much real silver than the market could absorb. It will be because of what occurs on the COMEX. I can't help but conclude that it is better to be forearmed with knowledge of what's really going on than to be in the dark.

Despite potential manipulative sell-offs created by the big concentrated shorts, the advice to silver investors remains the same – hold on for much higher eventual prices. We have been faced with a criminal manipulation in silver for more than two decades. In spite of this manipulation, silver investors have done magnificently, especially those with knowledge of the manipulation. That manipulation is much closer to being terminated than ever before. Someday soon, we will be able to look back and pinpoint when the manipulation was terminated. We can't do that now. But what we can do now is to make sure we are properly positioned for when the manipulation ends and the price soars. At that point, artificially depressed and manipulated prices will no longer be available – especially if the big hedge funds have discovered silver.

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Silver – \$30.15

Gold – \$1362

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