

Jan. 14, 2010 – The Biggest Risk

A few updates before the new article that follows. Today is the day for the CFTC's open hearing on energy position limits. The latest instructions for how to tune into the hearing can be found here – <http://www.capitolconnection.net/capcon/cftc/011410/CFTCwebcast.htm>

First, thanks to all who wrote to the Commission, asking them to fully-air and consider imposing a 1500 contract position limit in silver, as well as disallowing phony hedge exemptions to those limits. The Commission is usually very closed-mouth about revealing how many public comments they receive (except during official public comment periods). But judging from the number of emails I received from you, they may have received more than ever before. All the copies of your correspondence to them that you forwarded to me were professional and well-written. No kidding. I was impressed. I think it will make a difference.

As I indicated in my previous article, Commissioner Bart Chilton appeared to have responded to each of you. Good on him. That's the way it should be with all public officials. Now it's up to him and the other commissioners to follow through. I'll have something to say about the meeting on the King World News interview recorded after the COT report is issued tomorrow afternoon. I plan a more in depth analysis over the weekend. One thing I can tell you for sure – get prepared to contact the Commission again in the official comment period that will be announced shortly. This will be very important. If you remember, I didn't give you enough time to comment in the last public comment period, yet 90% of the official comments the Commission received were still about silver and gold. I'll give plenty of notice this time.

<http://news.silverseek.com/TedButler/1251206905.php>

A quick update on the market structure. While we'll know more after the COT report tomorrow, I am still encouraged by what I see so far. We've started off 2010 with a bang to the upside. In the first 6 trading days of the New Year, silver rose as much as \$2 and gold \$60 an ounce, on an intraday basis, with the silver to gold ratio indicating stronger silver performance. Importantly, I haven't detected notable COT deterioration (tech fund buying/dealer short selling) on this sharp rally. While that can change, until it does, that aspect of this rally is encouraging. Does it have anything to do with the Commission meeting today? Could be, and we should know a lot more in the near future. Here's today's article –

The Biggest Risk

Just like every investment has a potential reward, every investment has risk. Silver is no exception. Even though the price performance of silver has been among the very best for the past year and the past ten years of all investment assets, that doesn't mean the risk of a price decline has been outlawed. Certainly, long-term observers and holders of silver have seen more than their share of sharp price declines along the way (usually orchestrated by the manipulators on the COMEX). Still, there is no escaping the reality of risk being present in every investment choice. It just must be measured against potential reward.

Today, the potential price risk compared to potential reward in silver is still overwhelmingly tilted towards reward. In fact, the current risk/reward ratio in silver (the amount one may lose compared to the amount one may gain) is as good as it ever was, in my opinion. Of course, the risk was lower when silver was \$4 or \$5, but the developments in silver have created much greater profit potential occurring sooner than existed back then. Everything is relative. In the high teens, you must expect bigger price moves in either direction than occurred in the mid-single digits. That's basic.

Besides, the biggest risk that I am referring to is not any short-term price risk in silver. If a price dip does develop (not a prediction), it will run its course quickly. Such an event, should it occur, should not matter to long-term investors and will provide an attractive buying opportunity for those less than fully invested. Instead, I am talking about a different type of risk completely that has nothing to do with price.

The past ten years has been characterized by many as the decade with the most financial fraud ever. Certainly, I can't recall a time when so many scams and Ponzi schemes came to light. In addition, more prominent names bit the dust over accounting irregularities and excessive speculation and leverage than ever in memory. From Enron to Bear Stearns to Lehman Bros. to AIG to Madoff, it was an era of unprecedented fraud and deception; of sudden and shocking nasty financial revelations, with lifetime accumulations of wealth gone in an instant. Some would say even world governments and our financial and currency systems should be cast in the same light. This is the biggest risk to which I refer — to wake up and find you somehow miscalculated and your entire investment held someplace is gone with the wind.

I know this is a disturbing subject. It should be, as the potential of suddenly losing a big chunk of hard-earned capital to a fraud is terrifying. I am not trying to be a fear monger and fan the flames of anyone's anxieties. But fraud seems to be everywhere, and that increases the potential that you could be victimized.

Let's face it, silver can't defraud you. It is an inert material, incapable of deception. Only people can defraud you. Even though it is not the thrust of my supply/demand and market structure based analysis, silver can, to a large extent, protect you against the rampant financial fraud around us. The trick is to make sure you are holding your silver in the right form. This is an old subject with me, but one I feel compelled to review, especially in light of what's occurred. There can be no greater financial tragedy than for someone to have invested in the right asset, at the right time, only to discover too late that he didn't invest in the right form of the investment or invested with the wrong people.

What is the right form of silver? First and foremost, it is real silver in widely recognized forms held in your personal possession. I like US Silver Eagles and other government issued bullion coins, but most all forms of small bars and rounds are fine, including "junk" silver coinage (excluding numismatic coins, of which I have no knowledge or interest). My premise is simple "I believe that the price of silver will explode amid great demand for physical silver and all forms of silver will be carried with it.

If you are in the fortunate position of having more investable funds than safe places to store silver, you must resort to professional storage. (Although silver is hundreds of percent higher in price than it was several years ago, it is still true that you get too much silver for your money, compared to other precious metals.) This professional storage aspect is where you must be particularly vigilant against fraud. If there is going to be a fraud involving silver, it is likely to involve storage. More specifically, any fraud is likely to involve silver that doesn't exist.

The safest way to insure your silver exists is to make sure it is held in your name and not commingled with metal belonging to others. In the case of 1000 oz bars, the most commonly stored form of silver bullion, you must have the serial number, hallmark and weight of each bar you own registered in your name. You must have the ability to immediately withdraw your specific bars at your demand. You must be paying a customary storage charge. Anything less than this should cause you to investigate further. I personally believe that the various publicly traded silver ETFs are safe as far as fraud is concerned, but registered ownership in your own name is safer.

Buy from someone you know and has been in business for many years. In this day and age, you can't be too careful. Pay for your silver on a fully-paid basis. No borrowing from the dealer or any leverage. Don't even buy, on a cash basis, from a dealer who even offers leverage, as they are generally not trustworthy, in my opinion. If you want to speculate in futures, that's your decision, just realize you are speculating not investing. Never ever buy from a dealer and have the dealer store your purchase for you. Make sure any storage arrangement is with a separate professional storage facility whose name you recognize and can check out, and the storage arrangement is between you and the facility, not the dealer. No exceptions.

There are a number of pool accounts and storage programs that don't meet the requirements I have outlined above. I have written about them before and have not changed my mind. They generally offer low (or no storage) fees and out of the country storage. Please don't ask me about any specific program, as I will not respond. I will tell you that I don't trust any of them and I advise you to switch immediately out of them and into real silver and real silver storage arrangements. Anyone looking to save a bit on storage or acquisition costs may turn out to be penny wise and dollar foolish.

Silver has been a spectacular long term investment for the nearly the entire time I have written about it publicly. My strong conviction is that the best is yet to come. Unfortunately, I also believe that the worst is yet to come in terms of silver fraud. You must not allow yourself to become a victim of this fraud. A very big investment risk is not owning silver, or enough silver. The biggest investment risk of all is holding the wrong form of silver.

Ted Butler

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