

January 19, 2011 – Position Limits – Another View

There has been an outpouring of articles and commentary regarding the issue of position limits recently, as a result of the January 13 public hearing by the CFTC on the matter. Many of you have written to me and have offered your take as well. I welcome the new interest in this important issue, especially by those who are commenting for the first time. As many of you may know, the matter of position limits for silver has been a signature issue of mine for more than 20 years. I'll have some reflections on where I think we stand on the matter shortly, but today I'd like to turn the microphone over to my good friend and mentor Izzy Friedman, who asked me for the opportunity to be heard on the matter.

Position Limits – Another View

By

Israel Friedman

I have a different opinion on position limits for silver than my good friend Ted Butler. For sure I know he is correct that the price is manipulated by the big short sellers and that a fair limit of 1500 contracts evenly applied to all COMEX traders with no exceptions would end the manipulation. But it has always been my opinion that the regulators would never install those limits. Why? Simple – they know that by enacting those limits the price of silver would fly to the sky and that the CFTC would be blamed.

Many people are upset that the regulators are proposing the position limit of more than 5,000 contracts for silver, as 25 million ounces is a crazy high amount for any speculator to hold. But I am happy that the CFTC won't install a limit of 1500 contracts. Why? Also simple – by not installing the right limit, it will cause the physical shortage to come sooner to silver. When the shortage comes to silver, the tables will be turned upside down. Then the big shorts and the CME will blame the CFTC not making them reduce their short positions before the shortage arrived. The silver investors will be dancing in the streets, delirious with joy and forgetting about the right position limits.

The CFTC and CME directors, and the naked shorts, and the users don't understand how a shortage in silver will look. How could they, as we've never seen a silver shortage before? But they will learn quickly. First any naked short will be bankrupt and the users will pay any price not to close their production line. The shortage will change everything. If the CFTC wants to ask something of the CME directors, it should be what plans does the CME have when a shortage comes to silver?

In a market like silver, used all over the world, the shortage creeps in slowly. The first reports of shortage are ignored and dismissed as temporary. But then things progress and it becomes impossible to deny the continuing reports of difficulty in securing adequate supplies of material. Then in an instant, enough people realize the true condition and all denials are suddenly cast aside and everyone panics to rush to buy, investors and users alike. Then the talk of position limits will be forgotten and all that will matter is getting real silver, not paper contracts.

The best thing about what has happened over the past ten years is that it has been the small investor who has been buying all the silver. The big guys have concentrated on buying gold. Let them. Because the little guy has been buying silver it means that silver is in very strong hands. The little silver guys are like an Army of ants and it's impossible to force all of them to sell until they get the price they want.

This is the first time in history that the little guys have out-foxed the big guys. Not only have the big guys not bought silver, the biggest of them have actually sold it short. But don't think that the some big guys won't buy silver, as they will – but only when the price goes over \$100.

Some have asked me why silver has gone up so much over the past two years, by over 50% in 2009 and 80% in 2010. The answer is simple. The demand by the small and medium investors was enormous who realized that silver can be a good investment for the future based on supply and demand and not by silly stories – inflation, weakness of the dollar, wars, etc. When you look at what happened in 2010 you have to ask yourself another question – Why gold prices only increased 29% when silver prices increased 83%? And the answer is simple – too much gold and less silver.

Like Mr. Butler, I can't see how there can be a shortage in gold when so little of it is consumed industrially and there are billions of ounces above ground. How can you have a shortage in something you are not consuming? It's much different in silver. That's why I believe silver will continue to outpace gold. I do hope gold will continue to go up in price, as that will mean silver will do even better. There are not many things I disagree with Mr. Butler about when it comes to silver, but I think the CFTC is doing the real silver investor a big favor by not installing the correct position limits. Let the coming shortage establish the proper price for silver.

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