January 28, 2015 – SLV Review/An Observation

SLV Review

The new stock short report was released last night and after reviewing the particulars of the report, I thought it might be appropriate to discuss SLV and GLD, the big silver and gold ETFs, in more general terms. After that, I'll add an observation on a random Internet post that appeared recently. First, the short report.

For the two-week reporting period that ended Thursday, Jan 15, the short interest in SLV rose by nearly 2 million shares to 19.54 million shares (ounces), while the short position in GLD rose by more than 2 million shares to just under 16 million shares (1.6 million ounces). As a percentage of total shares outstanding, shorted shares represent 5.9% in SLV and 6.3% in GLD. Long time readers know that I find the existence of any shorted shares in these securities to be manipulative and fraudulent on its face; but then again, I (and I'm sure you) find many Â?acceptedÂ? things around us that shouldn't exist and which we can't do much about.
http://shortsqueeze.com/?symbol=slv&submit=Short+Quote%99

The price action for gold and silver during the reporting period included the strong start from year end, in which gold jumped by $70 and silver by more than one dollar, but not the big, high volume up moves on Jan 16 or subsequently. Therefore, it is not surprising that the short positions in GLD and SLV rose in the current report and it will not be surprising if the short position grows even more in the next report, particularly in silver. I say that because there have been significant deposits of metal into the GLD this year, including yesterday's very large 300,000 oz. deposit, which had all the earmarks of being a delayed deposit to settle up against previously shorted shares.

In SLV, of course, there has been a big net reduction in metal holdings in the reporting period (and before and after) and the most plausible explanation is that shares are being shorted because physical metal is not freely available (along with the avoidance of a big buyer from crossing the SEC's 5% share ownership reporting requirement). If there is one thing absolutely rotten about SLV (and GLD) it is the ability of short sellers, most likely Authorized Participants (AP's) and including JPMorgan, to fraudulently and manipulatively short shares instead of depositing metal when net new buying occurs and as the prospectus demands. Actually, Â?rottenÂ? is too mild of a term, unless preceded by the expletive of your choice.

Shorting shares in a hard metal ETF, like SLV, instead of securing and depositing actual metal, is cheating in its purest form, a Wall Street end around gimmick that hurts all silver investors, not just those in SLV. As such, silver (and gold) investors should be united against it. How does it hurt all silver investors and not just SLV investors? By not having to bid up silver prices by securing metal when it is not freely available, the free market forces of supply and demand are circumvented to the short sellers' advantage and to all silver investors' detriment. This is the reason shares are shorted Â? so actual metal prices can be kept low.

I'm not suggesting that the shorting of SLV shares is at the heart of the silver manipulation, as Manipulation Central is still firmly ensconced on the COMEX. After all, the eight big shorts on the COMEX are short 310 million oz, while total SLV shorts are in the 20 million oz range. But the shorting of SLV shares is an important additional means of control for crooks like JPMorgan and a way to short circuit free market supply and demand.

Surprisingly, very few seem to notice or get offended by the short positions in SLV and GLD (Ed Steer being a notable exception) and a few commentators have indicated that I just don't know how short sales operate. However, I think I do and I do plan on resurrecting the issue with BlackRock, the sponsor of SLV and the world's largest money manager, should the next short report read as I expect it to read. Let me temporarily end the short sale discussion and comment about SLV and GLD in general. However, please keep in mind that while prices are suppressed by short selling, should the silver shortage hit while a big short position is in place, the short position will likely add much buying fuel to the upside.

This is not intended as specific investment advice, but in the interest of full disclosure, I haven't changed my mind about the viability of SLV, despite my utter disdain for the shorting of its shares. Physical metal in hand, of course, is better, but SLV (and other forms of storage) for metal ownership one is unable to store personally is still OK by me. That doesn't mean you should hold SLV if you are not comfortable for any reason, including the existence of the short position. Maybe better than anyone, I also realize that even leaving out the short position, great numbers of investors and commentators automatically view SLV and GLD as some type of fraud or scam. The short position aside, I don't see it that way.

At a minimum, any gold or silver analyst can't overlook the world's largest privately owned stockpiles of either metal. After all, if you dismiss these holdings as being fictitious or non-existent, what do you look at instead? The same thing with COMEX futures trading or warehouse holdings (and movements) Â? overlook these and you are left with little to analyze. Probably the very first thing any gold or silver analyst has to determine is what are the most important factors to price and to write about those factors. At the very top of my list (as I'm sure you know) are the COMEX and ETF factors, because the data are largely easily verifiable and the record is clear.

Despite the near universal contempt in which the precious metals Internet community holds SLV and GLD, the simple fact is that if these investment vehicles hadn't existed, I am certain the price highs of 2011 would never have been established. And I'm equally certain that no new future highs will be seen without them. If you think I'm exaggerating, then just look at the record and what you'll see is strong growth in SLV and GLD metal holdings that traced out the price movement to 2011, followed by a decline (in GLD) or stagnation (in the case of SLV) in physical holdings since then on the price decline.

The logic is even simpler – when physical gold and silver are being accumulated by GLD and SLV, prices rise, just as they should. When metal is not being bought or is being sold by the trusts, gold and silver prices go down. Therefore, even if a precious metals investor makes the decision to avoid personal ownership in GLD or SLV, that investor, should he desire higher prices, should still be rooting for the trusts to accumulate metal. The last thing he should be doing is bad-mouthing the trusts. I understand that a good number of GLD and SLV critics just happen to sell or have affiliations with those that sell silver and gold for a living, so that conflict must be taken into account.

The fact is that before the SLV was introduced in 2006, I had separate doubts that it would come into existence and, quite amazingly, sort of found myself on the same side as the Silver Users Association (SUA), the archenemy of higher silver prices (please check the archives). We both knew that the creation of a security that enabled retail and institutional stock investors to, effectively, buy physical metal would cause the price of silver to rise.

But whereas the SUA did try to kill the introduction of SLV during the SEC's open comment period, I was more amazed that anyone couldn't see that the limited amount of physical silver in the world would cause silver prices to rise and I was resigned to its rejection. Fortunately, I was wrong about the SEC's rejection of the SLV introduction, but very correct about its effect on price as silver prices ran to nearly $50 five years later, mainly on SLV buying actual metal. I continue to believe that this will be repeated in the future to a much greater extent.

An email exchange the other day with a reader who doubted the validity of SLV and GLD as far as the trusts having all the metal purported to be on deposit reminded that I did have doubts as well some years back, after SLV was first introduced. As a result of a dialogue with another reader who couldn't get his brokerage to give him the serial numbers and bar weights of the 1000 oz bars of silver he was paying storage fees for, he stayed after the issue to the point of getting Morgan Stanley to settle a class action lawsuit. As the main plaintiff, he took my advice that if they wouldn't give him the individual serial numbers and weights, the metal didn't exist.
http://www.investmentrarities.com/ted_butler_comentary/10-23-07.html

Shortly thereafter, it occurred to me that despite GLD listing the serial numbers, weights and hallmarks for all the gold it held on deposit, the SLV, then owned by Barclays Global Investors, did not list the serial numbers, weights and hallmarks of the silver bars it held in the trust. After the Morgan Stanley experience, it occurred to me that I wasn't being consistent in letting Barclays slide as far as publishing the relevant data. So I took it on myself to point this out to Barclays and asked readers to also write to them to start publishing the serial numbers, weights and hallmarks. Much to Barclays' credit, they did so shortly thereafter.
http://www.investmentrarities.com/ted_butler_comentary/10-29-07.html

http://www.investmentrarities.com/ted_butler_comentary/01-07-08.html

In summary, the only bad thing about SLV and GLD, as far as I can tell, is the existence of a short position which creates shares without metal backing as proscribed by the prospectus. This damages not only shareholders in these trusts, but gold and silver investors in general, since it appears the short sales are made to evade the purchase of metal on the open market and the price effects such purchases would have. As such, shorting in SLV and GLD looks fraudulent and manipulative. Yet few, if any, commentators mention this.

On the other hand, it can be easily demonstrated that accumulation of metal by the trusts does drive prices, based both on the record and on simple logic. Yet there is widespread denial of this fact by critics who are often conflicted by what they sell. Welcome to the world of Internet precious metals' commentary.

An Interesting Observation

I try to read everything written about silver, right down to random comments posted on the Internet. A recent comment that I found interesting concerned someone who ran across socially the proprietor of a business that used 75,000 ounces of silver every week in fabricating the wiring used in aircraft manufacturing (most likely Boeing). The business owner remarked that he never had any difficulty or delay in procuring the required silver and, further, he didn't care what the price was, as his contract covered any increase in the price of silver. The conclusion of the Internet commentator was that this proved that there was no shortage of silver, nor would there ever be one.

I believe the facts about this use of silver by the aircraft wiring proprietor are correct and that close to 4 million ounces of silver are being used annually in this one specific application. And I don't doubt that there are many such unreported industrial applications of silver, since the US consumes close to 200 million ounces each year in total silver fabrication demands. But where I would disagree is in the assumption that just because there has never been a delay in procuring silver that will always be the case.

Silver is a very special commodity in that it is the only true dual use metal; a vital industrial material and a widely-held primary investment asset. The industrial usage of silver, just like the industrial use of any commodity, doesn't change much, either week to week or year to year. But investment demand is another case completely, because investment demand is run by collective emotions. That means investment demand can turn on a dime and that is even more the case with silver, as is proven by its inherent price volatility. This is the key.

When, not if, collective investment demand kicks in for silver, just as it has on numerous occasions in the past, industrial users are likely to feel the effects of that investment buying. Let's face it Â? as an inert material, silver can't know if it is being purchased for industrial consumption (in aircraft wiring) or because an investor suddenly wants it to balance a portfolio. Dual use means investment demand for silver competes with industrial demand for the very finite amount of available physical silver supply. The minute too much physical investment buying emerges, silver industrial users will be deprived of their accustomed free flow of supply. Here's where you have to think for yourself.

Let's say you are the owner of an airplane wiring business that uses 75,000 ounces of silver a week and sudden investment demand for silver causes your supplier to tell you that you must now wait for metal because none is available immediately. You can't suddenly manufacture aircraft wiring without silver because your wiring won't meet rigid specifications, so your only choice is to shut down your business until silver is freely available again or pay whatever price is required to secure metal immediately. And since you can pass along the costs of higher silver prices anyway, there really is no choice Â? you will pay whatever high price is required and most likely look to buy additional supplies to stockpile and head off future delivery delays. All this will only inflame investment demand and reinforce still higher silver prices.

This, in a nutshell, is what seems inevitable to me because of silver's dual use nature. So while the wiring company owner sees no possible problem with a steady and secure future supply of silver, it's real easy to imagine a different eventual outcome and one which will reward silver investors.

Ted Butler

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Silver – $18

Gold – $1284

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