January 4, 2017 – Reputational Risk

Reputational Risk

I suppose there are some people who could care less about their personal reputations, but for most people reputations matter greatly. To many, reputation is the most important definition of who they are, something that transcends life itself. Further, it's not just individuals concerned about reputation, this applies to companies as well. And no companies are more concerned with maintaining an upstanding reputation than financial institutions, particularly banks and other institutions dependent upon the public's trust and confidence.

There are even guidelines from the regulators, including the Federal Reserve, about how banks should address reputational risk. It is also standard practice for public financial institutions, such as JPMorgan and the CME Group, to have special committees at the board of director level responsible for considering reputational risk, just like an audit or compensation committee. There can be no doubt that reputational risk is a very serious matter for a financial institution.

The whole premise around reputational risk for a bank or financial institution is that such organizations must avoid risks to their reputation above and beyond the risks faced by individuals or other companies not entrusted with great amounts of public money. Furthermore, both JPMorgan and the CME Group are considered to be systemically important financial institutions (too big to fail), making any potential serious damage to their reputations magnified to a degree almost incalculable.

As you know, I have consistently alleged that JPMorgan and the CME Group have been involved in the most serious market crime, price manipulation, in just about every article I've published for many years. There was never anything personal about it in any way; it all grew out of an attempt to analyze silver (and gold) in the best and most objective manner possible. I just followed the data and presented the case as it developed. It baffles me that everyone doesn't see things as I do, but I am encouraged that more seem to do so daily.

If my allegations are correct (as I believe them to be), it is almost impossible to imagine a greater potential threat to either organization's reputation. Even if my allegations are off-base, the potential threat would still exist and should be addressed by these institutions, at least to the point of soundly refuting allegations that may be incorrect. Knowing all this, you can be sure that I have been very careful in my presentation of the facts. The very last thing I would want to do is unjustly accuse anyone of wrongdoing. Not just because I would likely feel the legal wrath from two of the most highly connected financial powerhouses in existence, but more because making false accusations is personally repugnant.

To that end, I have made it a point to send any article in which I've alleged wrongdoing on the part of JPMorgan or the CME in the silver or gold market to the heads of each organization, which, effectively means I've sent them more than one thousand such articles. I did this, in essence, to give each organization the opportunity to demonstrate why or where I might be wrong. To this day, I've never gotten a response, which I find quite strange.

I remember the immediate reaction I got from another financial powerhouse, BlackRock, a few years back when I petitioned it to address the short position in SLV, of which it was the sponsor. Even though I received an immediate demand from BlackRock's very high-priced outside attorneys (which I complied with), my sense to this day is that they were more annoyed that I made the top guys' email addresses public Â? which resulted in a number of highly insulting personal emails from readers (not subscribers). But at least there was an immediate response to what was a serious matter Â? manipulative shorting in SLV. Perhaps coincidentally, the shorting issue never flared up again since then, as it had before.

The allegations I make about JPMorgan and the CME Group are infinitely more serious Â? JPMorgan for singlehandedly manipulating the price of COMEX silver since acquiring Bear Stearns in 2008 and using its control on price to accumulate half a billion ounces of actual silver at artificially depressed prices since 2011 and the CME for allowing a few large trading entities to gain illegal control of the price discovery mechanism for silver and gold and a slew of other commodities. It is not possible for there to be more important issues and it is nothing short of bizarre that neither JPMorgan nor the CME have denied or commented on any of the allegations. Make no mistake, openly and repeatedly accusing major financial institutions of serious market wrongdoing and having those accusations ignored is not business as usual; in fact, it is unprecedented.

I fully understand why neither JPMorgan nor the CME has any interest in openly discussing my allegations of manipulation. The allegations are impossible to deny or to legitimately explain away. If either could openly address the issues, we would have heard from them by now. I further understand that each has used the passage of time to continue to feather its nest Â? each continuing to rack up profits and trading fees, with JPM also adding to its stockpile of actual silver (and gold). Finally, I accept that there will be no regulatory resolution or pressure to force JPMorgan or the CME to respond to the serious allegations. But all is not lost.

There is such a thing as the court of public opinion. For better or worse, we've seen it demonstrate its power in recent elections. Nothing is more connected to reputational risk than public opinion Â? they are almost one and the same. At the same time that JPMorgan and the CME have remained silent in the face of serious allegations of price manipulation, there has been a notable increase in the public awareness of the issue. In other words, the silence of JPMorgan and the CME has done nothing to prevent the growing recognition that each may be involved in serious ongoing market crimes.

That tells me we're building up to some sort of conclusion Â? either an end to the manipulation or the end to the allegations remaining unanswered and unresolved. This was my goal from the beginning. It was my reason for complaining so often to the CFTC, which at least resulted in public responses and a formal investigation, even if the agency managed to sidestep the issues. That shows the issues I raised were substantive. Given that the allegations have become much more specific and documented over time, I don't believe JPMorgan or the CME can even attempt a cursory dismissal of the CFTC variety.

In my opinion, the best course for JPMorgan and the CME is to see the silver (and gold) manipulation ended and for prices to rise to free market values. As and when prices reach those free market values, the anger and growing attention to the price manipulation will disappear. After all, it's hard to remain angry as one becomes wealthier. At much higher prices, it doesn't mean that prices weren't manipulated previously; it just means the manipulation is over and that silver holdings are a source of joy, not consternation.

On to developments since the Saturday review, mostly of the price variety. The first two days (including today) of the New Year have seen gold and silver prices move to the highest levels in three weeks. Not to put the kiss of death on the move, but this is in accordance with the extremely bullish COMEX market structure. That's not to say we're completely out of the bearish woods and can't suffer renewed price weakness, as the manipulation's end is still debatable. But market structure indications are always about probabilities, not precise timing and an extremely bullish market structure always strongly suggests the probabilities of not much further price weakness and the greater likelihood of higher prices.

We had an even better market structure at the end of 2015 and while gold and silver prices moved higher over the course of the first half due to that bullish market structure, there was a bit of hesitation into the start of 2016, with mining shares swooning into January 19. My point is not to get too caught up in the very short term price action. By all counts, we should be rocketing higher and that may turn out to be the case. Then again, when a market is manipulated, by definition, prices don't behave as they should.

There has been enormous trading volume yesterday and today as gold and silver prices set new highs today, with both metals penetrating their 20 day moving averages on the move up through yesterday's cutoff for the COT reporting week. As such, it is reasonable to conclude managed money buying and commercial selling will be featured in Friday's COT report for gold, the first increase in net commercial selling in six weeks. I'm hesitant to put numbers on it, but Friday's report should indicate increased commercial selling in silver as well, mostly as a result of yesterday's rally. Considering the significant improvement in the gold market structure since November 8, some give back or increase in commercial selling should not be expected to greatly diminish the overall bullish market structure, but can lead to selloffs.

However, the key feature, particularly in silver, is the nature of the commercial selling or, more specifically, whether JPMorgan has added to short positions. I don't know if this will be seen in Friday's report, but should the rally continue, it will become visible in time Â? both in subsequent COT reports and in price action. Should JPMorgan not add aggressively to COMEX short positions, any silver rally from here will likely prove quite dynamic. If prices continue to rise in a very orderly manner and are accompanied by heavy trading volume, the odds increase that JPMorgan is back to its evil ways of being the short seller of last resort.

For the time being, the jury is still out as to whether this is the liftoff of my long expected big silver rally or if the mission gets scrubbed temporarily for launch at a later date. While it's way too early to know for sure, since we've had only a few days of rally, I'm still playing it as if it's the big one – due the consequences of guessing wrong and the risk of missing the move.

Ted Butler

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Silver – $16.45 (200 day ma Â? 17.79, 50 day ma – $17.02)

Gold – $1163 (200 day ma – $1271, 50 day ma – $1205)

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