

July 6, 2010 – Madoff and Silver

### Madoff and Silver

Bernie Madoff, who cost thousands of investors many billions of dollars, pulled off the biggest investment scam in history, for which he will remain in jail the rest of his life. Because many have written to me putting the silver manipulation in the same context as the Madoff scam, I thought this would be an appropriate time to compare them.

There appears to be much in common between what occurred with Madoff and the ongoing silver manipulation. Both scandals have involved billions of dollars and thousands of victims. In addition, the front line regulators, the SEC in the case of Madoff and the CFTC in the case of silver, were and are derelict, even though both were warned in advance. Both rip-offs occurred over a long period of time; Madoff's scam going back 15 years, with the silver manipulation now over 25 years old. In each, many smart people failed to see evidence that was right in front of them. The watchdogs in the media also failed to warn about Madoff or the silver manipulation. That doesn't stop them from making up for that after the fact. An additional commonality was that everything looked fine with Madoff until the minute he couldn't meet redemptions. Although the silver manipulation is not a classic Ponzi scheme, it will end the minute the market runs out of silver. Unfortunately, both scandals undermine investor confidence in our regulators.

However, my intent is not to show how similar are Madoff and silver, but rather how different they are. Here are the things I see as different. Remember, it is my contention that what has been transpiring in silver is much worse than what occurred with Madoff.

- 1. No market manipulation by Madoff.** Bernie Madoff simply lied to and stole from people, he didn't distort markets. Since he didn't trade anything, he didn't impact the price of any individual security or market. Because the silver manipulation has widely distorted the price, all manner of participants, like mining companies and silver-exporting countries, have been impacted. The list of those damaged by the silver manipulation is immense and will only be known well after the silver scam has been terminated. By definition, manipulation is the most serious market crime possible, because it impacts untold numbers of people and distorts economic activity. While he stole billions of dollars from thousands of investors, Madoff's crimes don't stand up to the financial damage created by the ongoing criminal enterprise being conducted on the CME Group's COMEX futures market.

2. **Little public warning in Madoff scandal.** While there were private low and mid-level warnings to SEC staff and a couple of business articles questioning Madoff's performance, the public was largely unaware of the scam. There may have been private knowledge on Wall Street about Madoff, but that knowledge was never shared publicly. Contrast that to silver, where over the years, thousands of articles alleging a manipulation of silver prices have been published on the Internet and thousands of investors have petitioned the CFTC to address the silver manipulation. Where Madoff's investors were caught flat-footed, silver investors are generally quite knowledgeable about the manipulation and prepared for its demise.
3. **No SEC commissioner aware of Madoff.** The few warnings that came to the SEC about Madoff never made it to the commissioner level. Contrast that with silver, where all the CFTC commissioners have been notified thousands of times each of the ongoing silver scam. In addition, as a result of this notification, the CFTC has conducted multiple silver investigations over the years and has publicly reported that all was well. There is a current silver investigation now approaching its two-year anniversary. The CFTC has held a recent public hearing on specific issues related to the manipulation, but has not followed up on that hearing, despite receiving 3000 public comments offering specific remedies. Where the SEC was unaware of Madoff at the highest levels and held no open review, the CFTC is very much aware of the silver manipulation. It just refuses to act against it.
4. **Madoff was a lone wolf.** While he undoubtedly had inside assistance to carry out his theft, Bernie Madoff was the sole criminal mastermind behind his scam. Although he had the appearance of respectability, in reality he was outside the Wall Street establishment. The silver manipulation is very much a Wall Street-organized undertaking. The list of alleged participants in the silver manipulation goes to the core of the investment world, from JPMorgan to the CME Group, Inc. Whereas Madoff operated alone; the silver manipulation is a group activity by ten or so leading Wall Street firms, operating as a wolf pack. The nature of the silver manipulation demands collusion among the leading traders for it to exist. This, alone, makes the silver manipulation a more serious crime than anything Madoff pulled off.
5. **No one denied Madoff ran a scam.** Because there was so little public knowledge and criticism of what Madoff was really up to, there was no opportunity for anyone to defend his actions. For instance, no one took issue with the contentions of Harry Markopoulos, the whistleblower in the Madoff scam, because they weren't made public until after the scam was exposed. In silver, we have the unbelievable circumstance of some people actually defending the concentrated short position in silver and denying a manipulation exists, in spite of public evidence to the contrary. The most incredible aspect of this whole affair to me is how those accused have remained silent, while some others have defended the manipulation, including those damaged by it, like certain mining executives. I suppose that had there been public warnings about Madoff, somebody would have said all was well, just to be argumentative. I'm sure that those denying the silver manipulation now will claim later that they saw it all along.

- 6. No way to verify the Madoff scam beforehand.** There was no easy way for an investor to dig into what Madoff was up to from public data. He ran his con on exclusivity and this enabled him to keep secret all details of his phony operation. In the silver manipulation, the allegations are based upon public CFTC data, including Commitment of Trader and Bank Participation report statistics. It's relatively easy for an interested observer to access the data behind the allegations of manipulation. Admittedly, the CFTC has created obstacles to understanding the true meaning of its own data by its past defense of the silver manipulation and its delay in dealing with it now. At least the SEC never publicly defended Madoff, unlike the CFTC, which has sanctioned the silver manipulation.
- 7. The Madoff scam was based upon a complicated trading strategy.** Investors were hoodwinked in Madoff's scam because the buying and selling of options and securities was too complicated for them to understand. This made it easy for Madoff to dazzle investors with double-talk and secretiveness. Their only rational was to judge the phony investment returns he reported. In silver, while the actual manipulation is somewhat complicated, the choice to investors is much more straight forward; silver investors don't need to be concerned with hocus-pocus, they can just study the public facts and buy real silver in a simple transaction and hold for the long term. Let the big short sellers engage in complicated and illegal activities, while the rest of us stick to keeping it simple by buying real silver.
- 8. When the Madoff scam ended, all was lost.** When Madoff confessed to his scam, all his investors were instant losers. All that remained at that point was the extensive litigation to recover as much as possible. This is the greatest difference with the silver manipulation. In the instant it is revealed that silver was manipulated, all silver investors will be instant mega winners. It can be no other way. This is why it is important that investors not fear buying silver, as this scam is your best reason for buying. I've heard some say that all this talk of manipulation scares investors away. Nonsense.

I'll probably think of a few more distinctions between Madoff and the silver manipulation the moment I send this out, but that's just the way it is. In the meantime, when you think of Madoff in terms of the silver manipulation, hopefully you'll come to appreciate how similar and different they are and how that knowledge can help you profit on silver in the future. Both scams are very big deals, but only one will make you a ton of money.

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