July 6, 2011 – SLV Follow Up

SLV Follow Up

I'm operating under some technical difficulties, which are formidable given my low level of computer proficiency. Hopefully they will be resolved soon. In the interim, I've fallen behind on email replies, so please resend anything on which you desire a response.

There are two items I'd like to cover today; the price action over the past two days and some follow up comments on the short position in SLV. As I write this, the price of gold and silver have rallied sharply over the past two days, climbing as much as $50 in gold and $2.50 in silver over the two trading days from the close on Friday. Gold has now traded above all its important moving averages, while silver has yet to cross its 50 day moving average. Most notable about the rally in gold and silver is that there didn't appear to be an obvious currency or macro news event driving prices. The dollar didn't crash and there was no visible new threat for the world's sudden demise. Therefore, one must look elsewhere for the cause of the rally.

Even though I am predisposed to a market structure explanation, it seems hard to come up with a more plausible reason for the two-day price surge than what was foretold in the most recent Commitment of Traders Report (COT). I am not suggesting that the timing of this rally was predicted by the latest COT as that is never the case, but the mechanics and force of the rally was directly traced to COT considerations. Of this, I am certain. The issue of timing aside, the set up for a prospective rally was clear in the COT structure. The commercials were holding a low historical net short position and the speculators a low net long position in gold and especially in silver. This came about as a result of rotten price action up through last Friday.

Assuming I am correct in identifying the cause of this two-day rally as a great COT set up, then the next logical step is to handicap the extent and duration of the rally. This analysis is based upon how quickly the COTs now deteriorate, namely, how aggressive is speculative buying and commercial selling on the rally. Once the speculative buying and commercial selling is advanced, then concern must be given to the inevitable sell-off. Only future COT reports can offer guidance as to when a sell-off becomes likely. This week's COT, to be released Friday, won't be much help in measuring the deterioration because it will only cover the first day of the rally which was yesterday, the cut-off day. We'll need to review the yet to be published future COTs to learn of any warnings of a sell-off. For the time being, this rally should be treated as likely to continue until strong statistical data is given to the contrary.

There is a possible outcome that while not necessarily a prediction, should be aired. The most recent COT report was so favorably extreme in the case of silver that it is possible for an extraordinary rally to be at hand. I base this possibility not only on the COT set up, but the circumstances upon which it was created. I am still convinced that the epic take down in price during the first week of May was not only orchestrated, but occurred at a time of maximum stress to the big short commercials. It was do or die for them. In fact, the big commercials shorts actually panicked in the last week of the April rally and bought massive amounts of COMEX contracts (around 10,000) up to $49, driving the silver price to those levels. Only then did they resort to smashing the price starting on Sunday evening, May 1. On the resultant orchestrated price smash another massive number of commercial contracts were bought through the last COT report.

The COT structure has been so thoroughly cleaned out and other circumstances in silver are so special that some thought should be given that the big commercials may choose not to add additional short positions, no matter how strong the rally. Admittedly, this is a theory I have held for many years. It comes down to whether the big commercial shorts let the price of silver fly by voluntarily refraining from selling more, or if Izzy Friedman's Â?full pants downÂ? (please see archives) scenario marks the end of the silver manipulation and the freeing of price. With the silver COT readings so favorable, the voluntary version holds the greater possibility currently. In any event, the current COT structure allows for an unusual move to the upside. No guarantees, but silver prices could surprise to the upside.

I received a good number of comments and questions on my recent focus on the short position in shares of SLV. Two very well-versed subscribers even informed me that the mythical Greek god I imagined had a history and name, Cassandra. Thank you. Others sent me responses from BlackRock which denied that they had any role in the size or disposition of the short position in SLV. I was going to get into a discussion about why this was bunk, but I received such a concise retort from another subscriber (who happens to be an attorney) that I thought I would use his words instead.

Dear Ted,

I immensely enjoyed your recent discussion of the shorts of SLV. You might have better luck getting Black Rock's attention if you underline their <u>fiduciary duties</u> for them. They are trustees for the shareholders.

According to the information in your article, there are about 320 million shares outstanding, plus about 37 million shorts=357 million. However, there are only about 320 million ounces of silver backing. Therefore there are only .896 ounces of silver backing each share held by the unsuspecting public.

The <u>real power</u> from a legal perspective, comes from the fact that the prospectus (I believe that one of these goes <u>out to each new purchaser of the ETF) implies that short selling would be minimum, short term, and arbitrage-</u>

like in nature. This is no longer the case. Black Rock has failed to acknowledge the current state of affairs, and is actively misleading the shareholders, by feeding false information to the shareholders. There is actually about 11% less silver backing each share held by the public, due to the presence of the enormous number of shorts. A trustee has a legal duty to disclose this type of information to the beneficiaries, and Black Rock is not doing so.

It might be fun to suggest to readers who hold SLV to write to Black Rock, asking the question if this is correct, why it has not been disclosed, what is being done to halt the dilution, etc.

Keep up the great work,

Jack

To others who asked me if I have abandoned holding SLV because of the short position, the answer is still no. I think this short issue is of monumental importance and feel that BlackRock can be forced to stand up for SLV shareholders by doing what it can to root out this manipulative and fraudulent short position. Certainly, the unwinding of the short position, whenever and however it comes, is immensely bullish for the price.

Ted Butler

July 6, 2011

Silver – $36.02

Gold – $1528

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