June 1, 2011 – Born to Run

Born to Run

Today, I'm going to take a step back and follow a bit of my own advice. You know, the advice that I always give to others about putting things in a different perspective. Each of us has a unique way of looking at the world, based upon the total input of our life experiences. Essentially, it is what makes us individual beings. Complicating our individuality are the restrictions we all face in the various roles we are thrust into. Being a parent, or a spouse, or member of a larger organization often alters what we say as individuals, as those roles can supersede our individuality at times. Sometimes, you just can't tell your children or your boss what's really on your mind because you fear they won't truly understand it from your own developed perspective.

So today I'm going to throw off my own shackles a bit in speaking about silver. What shackles? Well, believe it or not, I do analyze and write with some heavy restrictions that are largely self-imposed. I certainly won't write anything as fact unless it can be verified. I won't speculate unless I label it beforehand as speculation. And even then, the speculation occurs against a factual backdrop. I try to never attack or openly disagree with any individual, unless there is some clear constructive angle to it. (That, obviously, does not extend to attacking the large institutions that have come to dominate and regulate the silver market). I always strive to set the level of discussion as high as possible, dealing with issues such as position limits and concentration.

Perhaps my biggest self-imposed restriction is not to write anything that could cause any reader serious financial harm. I know that when you wade into the investment jungle, you must be prepared for risk and reward and that no one has a lock on the future. That said, the thought of anyone being seriously hurt financially due to something that I wrote would be unbearable to me. In fact, that thought governs everything that I write. It is behind my mantra of no margin and hold real metal for the long term. It is why I try to persuade others to decide for themselves if they should own silver on the merits and their own common sense and not because I said so.

I suppose I could achieve greater personal financial benefits by making myself the center of attention more, but that would clash with my personality and what it is I am trying to achieve. Quite simply, helping to end the silver manipulation is my main objective. Fortunately, that objective does not clash with helping others (and my own family) make some money off the termination of the manipulation. It is simply amazing to me when I hear a manipulation denier proclaim that it makes no sense to invest in silver if you feel that the price is manipulated. I would submit that if the price of anything is artificially depressed, that is the best reason of all to buy it.

What prompts this introspection is that very recently I have found myself speaking somewhat differently with those who I normally converse daily than what I may have been writing. I have caught myself talking much more bullishly about silver than my written words may indicate. I know I haven't been negative about the price prospects for silver; perhaps just not bullish enough. So please accept this as an attempt to set the record straight. Or straighter.

Regular readers know I try to avoid using specific price targets, especially on a short term basis. But not always, as sometimes that's the best way to convey a feeling. Back last summer, when I was still doing the King World interviews and silver meandered around the $18 level for months, I talked of a $5 to $10 pop to come. On November 17 (A Special Set Up?), I opined that silver was at an important bullish juncture after a pull back to the $25 level. We have yet to take out the price low recorded then. More recently, on April 13, I talked of a Â?feeling in my bonesÂ? about a $10 to $20 pop. We came real close to a $10 up move before the intentional price slam starting May 1. I feel I have generally been most bullish just before prices spurt, but you must be the judge of that. I certainly plead guilty of promoting silver over gold.

At $38, it may be hard to bang on the table for a sharp price rally for silver, all things considered. After all, the price is still close to nine or ten times higher than where it was earlier in the decade. Plus, the introduction of High Frequency Computer Trading gives the big COMEX commercial crooks the ability to instantly smack down the price for a dollar or so at will, all while the CFTC looks the other way. Certainly, there is no shortage of pundits predicting much lower silver prices to come. Yes, there could be lower prices ahead and yes, I could be wrong. But let me explain why I think there could be a price surprise to the upside.

First and foremost, the market structure, as defined by the Commitment of Traders Report (COT), looks great. Silver hasn't had as good a COT set up in a long while (almost two years). That means there is not much Â?juiceÂ? to fuel a giant move to the downside, while there is a large potential supply of fuel to the upside. Back in March and into early April, when we first touched the $38 mark, the total commercial net short position ran around 55,000 contracts. This wasn't a particularly high or low COT level, more neutral than anything else. But, after the run to $49 and subsequent collapse, the commercial net short position is now 35,000 contracts or 20,000 contracts less than it was two months ago. This means that the commercials have reduced their collective net short position by 100 million ounces on the COMEX between first time we touched $38 and where we stand today. You have to go back to the summer of 2009, when silver traded in the $12 to $14 range to find a COT reading as low as it is today. This is 100 million paper ounces that the commercials succeeded in forcing the leveraged long traders to liquidate.

In addition, these same collusive commercials have succeeded in forcing close to 50 million real silver ounces to be liquidated from the big silver ETF, SLV, over the past month. That's a total of 150 million ounces of silver that just changed hands. Based upon there being around one billion ounces of above ground world silver bullion inventories, that's the equivalent of 15% of the world's silver inventories having moved from weak hands to much stronger hands. This was the prize and intent behind the manipulative take down. Please try to put this amount of silver into perspective. It is equal to the entire amount of new silver available to the world's investors for an entire year. It is more silver than any country has ever mined in a year. It is more silver than the Hunt Brothers or Warren Buffett ever bought; at a time when there is much less silver in the world than there was 30 or 15 years ago. It is an amount of silver that, if attempted to be purchased without a deliberate and coordinated price smash, would send the price up two or three times. Were it not for the illegal and manipulative nature under which it was purchased, it would rank as one of the best trades in financial history.

Now that this amount of silver equivalent has changed hands, the urgent nature of the transfer has become clear. As I have written previously, no one goes to the extremes gone to in creating this price smash without good reason. No one buys anything if they are not convinced it will rise in price. The commercials set out to get these 150 million ounces of silver for the simple reason they are convinced it will rise sharply in price. So am I.

Based upon the urgency and determination clearly displayed by the commercials in causing this giant quantity of silver to be liquidated into their own control, a commensurately high price target would be appropriate. Accordingly, it would appear to me that, at a minimum, a test of the old highs would be in order. And that's if the commercials who now own this silver are content to merely book a massive profit. If they hold onto this silver more tightly than if it were just a great trade, a relatively quick move to $60 to $75 could be in the cards.

It's important to remember that silver is a commodity that was born to run in price. We have only seen glimpses of silver's inherent nature due to the decades' long price suppression. This manipulation is ending and when it does end there will be nothing left to hold silver back, save the free law of supply and demand. That's something no one alive has ever witnessed, yet everyone will witness before long.

On the move up from August until the end of last year, the price of silver travelled about $13. From the lows at the end of January to the end of April highs, the price travelled another $22. Those price moves were not based upon fluff or speculative hot money, but a tightening grip on the world's remaining silver. I can easily envision the next major move being larger than the first two, hence my price targets. The recent forced transfer of 150 million ounces of paper/real silver from weak hands to strong hands promises to tighten the silver market in a profound manner and may make my price targets inadequate. That said, it is still more important to not lose silver positions than to chase anyone's price projections. Therefore, continue to avoid margin and stick to call options if you must employ leverage.

Ted Butler

June 1, 2011

Silver – $38.00

Gold – $1548

Date Created
2011/06/01