June 29, 2010 – BP and Silver

BP and Silver

Before you think I've taken leave of my senses, let me explain why I used this title. While there wouldn't appear to be a direct connection between the Gulf oil disaster and the silver market manipulation, I'm going to point out some remarkable similarities. The environmental catastrophe in the Gulf of Mexico is like an open wound that won't heal. I can only imagine the impact on those directly affected. I'm certainly not downplaying the seriousness of BP's oil and gas well blow out by making comparisons with silver. My primary objective is to describe the circumstances in such a way that you can appreciate the incredible investment opportunity in silver and come to share my outrage at the ongoing price manipulation.

As regards the Deepwater Horizon accident, I never imagined such an uncontrolled blow out could have happened. I've followed the crude oil market for all my business life and the thought that many tens of thousands of barrels could flow suddenly and without control into U.S. waters for months on end from the sea floor a mile deep never occurred to me. I don't think what we are witnessing was ever presented as a genuine risk from deep water drilling. The thought that BP and the federal regulators had no credible plan to deal with such a failure is highly disturbing.

Likewise, the mere thought that the silver market could have been manipulated for the past 25 years is beyond the realm of possibility for most people to believe, particularly those who work in the silver industry. Recently that has begun to change as more observers take the time to study the facts. But just as the Gulf tragedy has shocked everyone, the silver manipulation will also shock everyone when it is terminated. The years of regulatory and industry failure in silver will suddenly be laid bare for all to see, just like they were in the BP accident.

The financial stakes for both BP and in the silver market appear to be comparable in scope. Who could have thought two short months ago that BP would have suffered a decline of 50% in its stock, a loss of more than $100 billion? And further financial risk to BP remains open as we appear no closer to ending the flow of oil. In silver the financial risk to the big shorts, especially JPMorgan, will not be confined to losses associated with buying back the massive short position. The legal liability claims by all those damaged by the long-term silver manipulation, including investors, mining companies and countries, will begin in earnest after the price has exploded. BP's financial condition before the blowout was as formidable as is JPMorgan's and the CME Group's today.

Sometimes the bigger you are means the harder you can fall.

The most plausible cause of the oil disaster seems to be centered on faulty decision-making by both BP and MMS (Minerals Management Service), the U.S. government regulator of oil drilling. A lack of a appreciation for the risks involved and short sighted spending decisions appear to be at the root of the drilling accident. It was this monumental miscalculation that threatens the demise of a world-class corporate name. If BP had any inkling of the damage, it would have done things differently. If they could correct their mistakes, they would. But the world doesn't work that way.

JPMorgan certainly didn't wake up one day and decide to manipulate the silver market. But now they find themselves stuck with a massive silver short position that they can't explain or cover. This is all about miscalculations and unintended consequences. CFTC data indicate that JPMorgan wasn't a large force in COMEX silver and gold trading until they acquired Bear Stearns in March 2008. Then everything changed. By assuming Bear Stearns' concentrated silver and gold short positions, as well as its trading personnel, JPMorgan became the 800-pound gorilla in the markets.

The former Bear Stearns' traders, now working for JPMorgan, never missed a beat. In March 2008, silver traded as high as $21. If Bear Stearns had been forced to buy back its short position of around 200 million ounces, the price of silver would have surely exceeded the $50 highs set 30 years ago. Instead, JPMorgan funded the position (with aid from the U.S. Treasury) and permitted the former Bear traders to help manipulate the price down under $9. Such a manipulation would not go unnoticed and the repercussions of that price manipulation are still preoccupying investors and regulators. But this issue is not going away.

BP failed to consider all the risks with Deepwater Horizon, as did JPMorgan in continuing the Bear Stearns silver scam. BP is learning the hard way what such a serious miscalculation can cost. JPMorgan may be about to experience its own payback for miscalculating what its traders were up to in silver. Both BP and JPM were too concerned about short term profit and cost considerations and neither fully appreciated the bigger risks involved. It may prove to be the undoing of BP as a corporate entity. I don't think the silver manipulation will cause JPM's demise, but it will harm their reputation and cost a lot of money.

One other unfortunate commonality is the role of the respective regulatory agencies in the Gulf spill and the silver manipulation. Both offshore oil drilling and commodity trading have specific government agencies regulating their operations. The U.S.'s Minerals Management Service was embarrassingly inept and complicit in the Gulf tragedy. If MMS did the job taxpayers paid for, the disaster would have been averted. What a sad circumstance. Likewise, the CFTC has had 25 years to come to grips with the ongoing silver manipulation and has failed to do so. The failure of legitimate regulation in each case is perhaps the saddest similarity between BP and silver.

Even though there are many similarities, there are some very important differences between the Gulf oil blow out and the silver manipulation. The main difference is that there was no advance public warning in BP's case, while there has been a barrage of public warnings in the silver manipulation. The Gulf oil disaster was a shock and surprise to almost everyone. There was no public discussion of what we would do in the event of a monumental blow out a mile beneath the surface. The subject never came up. Only afterwards did we learn there were no solid contingency plans or safeguards.

In silver, the CFTC has acknowledged that it has received warnings for more than 20 years of a silver manipulation. There have been multiple reviews, including a current formal investigation now approaching the two-year mark. More recently, thousands of public comments were received by the CFTC asking the agency to establish legitimate position limits and break up the big concentrated short positions in COMEX silver.

When the CEO of BP, Tony Haywood, was grilled by a congressional committee about the management miscalculations on BP's part, he claimed he was unaware of the day-to-day decisions that led to the accident. While the congressmen were incredulous of Haywood's claims, there was no evidence to the contrary. If there ever is a future hearing where the CEO of JPMorgan, Jamie Dimon, finds himself on the hot seat for silver, there will be no claim that he was unaware of his company's actions. Dimon has received hundreds of emails alerting him to his company's involvement in the silver manipulation.

The biggest difference of all between BP and silver is what it means to you, the silver investor or potential investor. The oil well blow out was simply bad news all around, causing epic environmental and economic damage, including the loss of income and jobs to innocent bystanders. There was no easy money-making opportunity presented, just a wide variety of wealth destroying outcomes.

Contrast that to silver. The long running price manipulation in silver has depressed the price way below fair value. Any time you can buy any asset below fair value you are being presented with a great opportunity. Further, the short position that has caused the price of silver to be manipulated below its true value is still very much in place. At some point, the concentrated silver short position will cease to exist. The short position is out in the open. It's now in the gun sights, with the trigger about to be pulled. What this means is that the unraveling of the short position has yet to be felt on the price of silver. The price has suffered from depressing impact of short selling for over 20 years. The next phase will be the opposite. There's not much any of us can do about the tragedy of the BP disaster, except learn from it. Silver is different, not only can you learn from it you can take advantage of one of the greatest investment opportunities of all time.

Ted Butler
June 29, 2010

Date Created
2010/06/29