

June 29, 2011 – Day Trippers

Day Trippers

She's a big tease,
She took me half way there
She's a big tease,
She took me half way there
She was a day tripper,
One way ticket, yeah
It took me so long to find out
And I found out
The Beatles

Admittedly, when that song came out in 1967, it held a different meaning for this then-20 year old, than it does today. In many ways, the whole world seems completely different to me than it did 44 years ago. Perhaps that is how it should be with the passage of almost half a century; but still I am troubled with some of the changes I see.

Today, when I think of day tripping, my thoughts are of the scourge of High Frequency Trading (HFT) which has come to infect many of our markets, including silver. In a short period of time, this computerized high speed trading has come to dominate short term price movements in the silver market. The \$3 drop in as many days was caused by HFT operations, as was the \$15 drop in the first week of May. Yet, there is little outrage and no regulatory reaction to the manipulative impact that HFT trading has on the price of silver.

It was a much different reaction to the impact that HFT trading had on the stock market in May of last year. The sudden drop in the stock market last year alarmed everyone, including the regulators, and the HFT operatives quickly cooled their violent impact on stock prices, lest they be driven out of business. Instead, the computer robots gone mad found a welcomed home in the silver market, courtesy of the CME Group, owner of the COMEX. New, state of the art computer trading facilities are in the process of being completed that will give the HFT crowd even greater manipulative control over silver prices.

How did we come to this sorry state of affairs, where manipulative trading practices are being promoted in silver? It all comes down to a basic conflict of interest, created by unintended consequences. In the late 1990's, the commodities exchanges were given greater responsibilities for self-regulation. That sounded good on paper, but turned bad in practice. Then, the exchanges were allowed to go public and consolidate, growing enormous in concentrated power. Today, the CME Group controls listed trading in grains, energy and metals, as well as interest rates and stock index futures. No one foresaw how powerful the CME would become, least of all the Justice Department.

Because the CME is a for-profit corporation, their main goal is creating greater profits. Their profits are dependent on trading volume. Therefore, their prime goal is to increase trading volume. HFT increases trading volume like nothing else. Hence, it is no secret that the CME would welcome and promote HFT. The problem is that what's good for the CME and the HFT operatives is bad for just about everyone else. Whereas the price violence that HFT creates helps the exchange, the HFT traders and the shorts (the price violence is always to the downside), silver investors and producers are necessarily damaged.

The CME Group has become so powerful, through size and political influence, that its prime regulator, the CFTC, appears impotent in any effective regulation. In fact, one of the current commissioners is a former CME employee. Lost in the advance of HFT is that it provides no real liquidity to the market. Day trading as market making is useless to real hedgers, who need counter parties willing to establish and hold overnight positions. Hedgers don't day trade. It did take me a short while to find this out, but I found out.

HFT trading is not the only scourge to silver investors; it is joined by the concentrated short position on the COMEX and the recent large and possibly concentrated short position in shares of SLV. The concentrated COMEX short position has been widely discussed, but I have been somewhat amazed that few have picked up on the significance of the large short position in SLV shares. This SLV short position is a very big deal. I consider it as significant as the concentrated short position on the COMEX, perhaps even more so. Please remember that this is coming from someone who has worked to expose and terminate the COMEX short scam for more than 20 years. I feel the SLV short position is every bit the scam as on the COMEX even though it represents a smaller amount of shorted silver to date. When investors buy COMEX contracts more often than not they know they are buying paper silver and are only interested in price change. But when an investor buys shares of SLV, there is an expectation that any shares purchased are backed by an immediate deposit of real silver, as represented by the prospectus. Shorted shares do not result in metal being deposited. Period.

I want to be very careful in what I say. While I am disappointed there has been little progress by the CFTC or any other regulator to right the obvious wrongs in place in silver, in no way does that make me less bullish on silver. The manipulative dirty tricks that the short crooks constantly dream up make it more certain that silver will rise significantly in price. The dirty tricks can and have delayed the price rise, but the delay is temporary. All manipulations are temporary. And considering the price rise to date (including the painful and manipulative sell-offs), few long term silver investors have reason to be disappointed over performance.

I am still encouraged by the recent clean-out in silver and a host of other commodities to the downside. While we will only know whether we've seen the bottom with the passage of time, it feels like we may have seen the lows. Here, I am bound by my COT roots. Lower prices from here will only strengthen the market structure; it is virtually impossible for the COT structure to deteriorate on lower prices. This is in contrast to chart and other interpretations and is just the way it is.

A larger concern for me is where we stand today compared to where we stood half a century ago. None of my life's experiences has quite prepared me for what I see today. I never imagined that a primary government regulator would be so timid in the face of clear transgressions, despite many thousands of public complaints. I never imagined that I could consistently accuse major financial organizations, like JPMorgan, the CME Group and BlackRock, of criminal behavior with no rebuke. I certainly never imagined that Day Tripper would come to mean High Frequency Trading.

Ted Butler

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Silver – \$34.75

Gold – \$1510

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