June 8, 2016 – What Were You Doing in 1986?

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In 1986, Ronald Reagan was president of the United States, the Space Shuttle Challenger exploded, as did the Soviet nuclear reactor at Chernobyl and mad cow disease erupted in the UK. The price of a gallon of gasoline in the US was 90 cents, the average annual salary was around $22,000, the cost of the average new house was $89,000 and the cost of a new car was $9,200. The Dow Jones Industrial Average ended the year at 1895 and interest rates closed the year near 7.5%. The price of gold ended the year just under $400, while silver finished 1986 close to $5.25, not far from the current silver/gold price ratio.

We were all 30 years younger than we are today, probably still in school or just starting out on our life's work. A good percentage of the population wasn't born yet. I was 39 years old back then and in the relative blink of an eye, I have a son who's now 37 and a two year old grandson. I had been a stock and commodity broker for 15 years by 1986, first at Merrill Lynch and then at Drexel Burnham Lambert. A year earlier, based upon a challenge from a client, Izzy Friedman, to explain how silver could remain depressed in price despite being in a long term physical supply and demand deficit, I had discovered that the price of silver was manipulated by concentrated short selling on the COMEX.

That discovery set in motion what would become my personal driving force for the next three decades – an attempt to expose and terminate the long term silver price manipulation. Therefore, it's easy for me to recount what I was doing in 1986 and that included, first and foremost, writing to every conceivable official who might get involved; not just the CFTC, the primary regulator, but also the self-regulators at the COMEX and the Chicago Board of Trade (which traded silver futures back then). I didn't limit my efforts to the various regulators: I wrote and called every senator and congressman who I thought might have a silver connection, as well as every miner and business publication I could think of, as well as the Justice Department and the Bureau of Mines.

Since I knew how serious price manipulation was in the eyes of the law, I wanted to take the high road and approach those officials who should have a natural interest in my allegations, particularly the CFTC. My focus was on righting what I saw as a major market wrong and it would be many years before I openly urged people to invest in silver due to its depressed and manipulated price. While I invested in silver on my own behalf, my prime focus back then was not in soliciting others to do likewise. Nothing I wrote about at that time could be considered promotional for silver, aside from it being artificially depressed in price.

Because the CFTC was the primary commodities regulator, I naturally petitioned it more and more as I continued to dig into silver and, especially, the details of COMEX futures trading. In a matter I never before wrote about, on one occasion early on, I complained about clearly erroneous open interest data that the exchange published in silver futures (big changes on no reported volume). Years later, I discovered that the agency leveled a fine of $500,000 (an enormous sum at the time) against the Mocatta Metals Corp for these reporting violations. But in keeping with the CFTC's stance to disagree with everything I claimed, I never received even a thank you.

Aside from that one instance, I'd like to suggest I had some modicum of success in convincing the regulators that silver was manipulated in price or, for that matter, anyone else apart from the regulators (aside from a couple of close friends). The truth, however, is that I basically convinced no one. Worse, the process was grueling time wise. There was no Internet or email, so from the time I wrote to any elected official (the only way to assure an eventual response from the CFTC), it was, quite literally, a turnaround time of two or three months or more by the time the elected official got back to me with the agency's response.

So, after several years of consistent rejection by the CFTC and the COMEX and not coming close to convincing anyone that silver was manipulated, my efforts wound down. I continued to study and learn as much as I could about silver and would selectively raise the issue with some, but having the door slammed in my face by the CFTC took its toll. I didn't run out of conviction that silver was manipulated in price, but I did run out of realistic opportunities to elicit a different response from the agency. Let's face it Â? I was already dealing at the top of the food chain in these matters and couldn't realistically go any higher. I wrote to senators and congressman with some special jurisdiction over the agency and those officials would contact the agency at the chairman level. But when the chairman of the CFTC flatly denies there was any manipulation to the appropriate elected official, it limits further discussion as the CFTC is the primary regulator and no senator is going to argue with the designated primary government regulator on serious matters of substance for long. Particularly when a non-constituent (me) was the one instigating the matter.

And there was no effective way to reach large numbers of market observers, as I was in no position to take out the advertising or other means of reaching a broader audience. So, while I was steadfast and persistent from 1986 and a few years afterward in pressing the regulators on the silver manipulation, my efforts came to naught, save for establishing an unquestioned record of raising the issue a decade or more before anyone else. But make no mistake, 1986 and the few years that followed were the worst years of my life in a professional sense (thank God I had a supportive and loving family).

Then, years later in the mid-1990's, a new development occurred that changed things radically Â? the Internet came along and because I was forced to become familiar with it for reasons completely unrelated to silver, I did so. The great thing about the Internet is that if you have a particular interest in a subject, the amount of information available about that subject is virtually inexhaustible. This was true even in the early days of the Internet and I found myself learning more about silver than ever before.

While it hadn't occurred to me initially, it wasn't long before I realized that the Internet was a two-way street, namely, a mechanism for both receiving and disseminating information in a manner so timely and reliable as to seem otherworldly. No wonder it has revolutionized business and society in ways never imagined. Since there is no censorship or barrier to entry (both good and bad), anyone can post whatever they want in some form on the Internet. For me, that meant I could present whatever I wanted on silver and other markets (I don't choose to discuss other matters). And for better or worse, a permanent record exists someplace for whatever is written. For me, this meant being extra careful in what I wrote. After all, I never wrote anything on an anonymous basis and always used my real name, so I was aware I could be sued for reckless commentary.

Being able to distribute my message on the Internet also meant being able to convince others that silver was manipulated in price. And while my primary interest has always been silver, many of the same factors behind the silver manipulation, such as futures contract positioning on the COMEX, applied to gold as well. Because there are many more people interested in gold than in silver, tremendous interest developed in the gold manipulation, but it is important to note the origins of the gold manipulation were an offshoot of my allegations about silver.

My big break came in the year 2000, when Jim Cook, president of Investment Rarities, agreed to sponsor my work which allowed me to devote all my time to thinking and writing about silver. That relationship exists to this day. Fifteen years after Izzy's challenge, the combination of financial support and the ability to disseminate my message on the Internet enabled me to do just that. I am, perhaps, the least egotistical man you may run across, but I am convinced few would be talking about a silver or gold manipulation today were it not for all the circumstances I experienced since 1986.

Thanks to the Internet (and the direct mailings by Investment Rarities), enough observers because interested in the matter that they took the initiative to contact the CFTC about the silver manipulation and this resulted in a number of agency investigations and public responses in 2004 and 2008, in which the Commission denied anything was amiss in silver. Yet, months after the final public response in May 2008, a shocking Bank Participation Report in August 2008, which revealed JPMorgan held an historic concentrated short position in COMEX silver and gold (as a result of taking over Bear Stearns) ignited enough public outcry that a new formal investigation was initiated. Five years passed before the Enforcement Division claimed it couldn't justify charges.

I had great hope for change when Gary Gensler was appointed CFTC chairman in 2009 and he hit the road running trying to institute position limits, an effort I had engaged in for decades. He even succeeded in getting position limits formalized in the historic Dodd-Frank Act, which promised to enact position limits as the cornerstone of commodity reform. Alas, Gensler's efforts fell short and he left the agency in 2012. To this day, position limits, first signed into law in 2010, are no closer to being enacted than they were before Gensler's term began, thanks to the power of lobbying by the big banks, principally JPMorgan.

Fast forwarding to today, I have given up all hope of the CFTC ever cracking down on the ongoing silver manipulation for the simple practical reason that no government agency could possibly admit to having muffed its key mission of responsibility for three decades and then admit it blew it. It matters not that according to the agency that the lynchpin of manipulation is concentration and JPMorgan has held the largest concentrated short position in COMEX silver for almost the entire time since it acquired Bear Stearns in 2008. To admit now that manipulation exists in COMEX silver would effectively end the CFTC's existence. But this doesn't mean that I believe the silver manipulation will not end or end in the relative near future Â? just not due to the CFTC.

There are a number of things that promise to end the silver manipulation and send the price surging. One important and ironic factor is JPMorgan itself. Having come to dominate and control the price of silver since acquiring Bear Stearns in 2008, JPM came to learn that there was very little silver in the world when prices soared into April 2011 and nearly caused a financial disaster for the bank due to its underwater short positions. From that moment on, JPMorgan embarked a buying spree for physical silver never witnessed in history. The bank has left no stone unturned in buying silver in every practical form possible, including silver coins from the US and Royal Canadian Mints.

Away from JPMorgan, it's only a matter of time before the investment world or even just a few large participants wake up to the realities of silver and make a concerted effort to acquire the metal. It's nothing short of a miracle that the awakening hasn't occurred yet. Apart from my claims that JPMorgan has accumulated massive amounts of the metal, no one seems aware what the bank has been up to. But that won't last forever. And even if no one comes to recognize what JPMorgan has done, it is only a matter of time before another silver investment rush takes hold.

Consider this Â? there was not a single big named investor who bought silver in important quantities in the run up to near $50 in 2011 Â? it was all general investment buying by ETFs and public buying that drove prices higher. That demonstrates how little investment silver exists. It would seem impossible in the next rush that some big names wouldn't emerge setting off the industrial user buying panic I have long envisioned.

But the single most important factor pointing to the silver manipulation ending is the fact that all price manipulations must end. By definition, price manipulations are the imposition of an artificial price in place of what the law of supply and demand would dictate. In the case of silver, the phony or artificial price is a price too low given the realities of actual silver supply and demand. The cause of the artificial price in silver is a concentrated short position larger than has ever existed in any market.

Eight traders, mostly domestic and foreign banks, hold more paper silver short on the COMEX Â? more than half of all the world silver mined in a full year and almost half of all the known silver bullion in the world. These traders have no economic justification for holding such a large concentrated short position and if such a position existed in any other commodity, it would instantly and universally attacked. In silver it is tolerated because the eight traders hold great influence over the regulators. In 30 years, I have never heard a legitimate explanation for why the concentrated silver short position is legitimate; it's more a case that it is somewhat complicated and overlooked. But that just explains why it has lasted so long, not why it will last forever.

All price manipulations must end and when they do, they end violently, with prices moving in the direction opposite to how the price was manipulated. For silver, this means an upward explosion in price. No one can say when this will take place, just that it must take place if there has been a manipulation.

In 1986, it was not possible for me to imagine that there would be such a thing as the Internet or that I would be writing about the silver manipulation in basically the same terms today as I wrote about back then. After all, such thoughts would require that I be a time-traveler, which I am not. Starting 30 years ago, I repeatedly alleged to the proper authorities that there was something wrong in silver based upon 15 years of professional experience at that time Â? it is inconceivable that I could have done so intending to write about it three decades in the future. Even more impossible to imagine is that the silver (and gold) manipulation is now regularly discussed and debated daily.

Given that whether a market is manipulated in price is of such high importance, I would have been beyond flabbergasted if you told me in 1986 that thirty years hence the COMEX silver manipulation would still exist and it would be a regular topic on an open communications device called the Internet. And if you told me back then that one day I would regularly and openly refer to JPMorgan and the CME Group as market criminals and experience no blowback, well, there are no words to express my disbelief.

Ideas are the most powerful of all human creations. All ideas must have a point of origin. The point of origin for the idea that silver (and then gold and other commodities) was manipulated by futures market positioning and concentrated short selling on the COMEX, came from me more than 30 years ago. I say that not to boast, but as a simple statement of fact. I claim no credit for other manipulation premises, such as central bank manipulations and hold no strong opinion on such premises (other than the now-discredited practice of gold and silver leasing). For me, the manipulation was always centered on the COMEX and the concentrated short position in silver.

My biggest mistake was in assuming early on that the idea of COMEX silver manipulation, once I explained it to them, would be immediately embraced by the regulators and market participants and fixed (with position limits to counteract the concentration). I underestimated completely that the forces behind the manipulation would ensure that the game continued, no matter how in violation it was to the spirit of commodity law. I understand that now.

But I also think I understand how powerful an idea can be and the idea that silver is manipulated in price is powerful enough to bring about the termination of the manipulation in time. That's the great thing about ideas. Today, in stark contrast to 1986, more recognize silver is manipulated than I ever deemed possible. And even those who continue to deny a manipulation exists are also, in a sense, furthering the idea itself by attacking it. But ideas based upon fact and logic are nearly impossible to kill.

The key idea is this Â? what would the price of silver be if, instead of only 8 traders holding the entire commercial net short position in COMEX silver (an amount currently equal to more than 460 million oz), the short position was spread out among many traders and not concentrated in the hands of a few? This is how free markets are supposed to be configured, with many traders, nor just a few. Clearly, it would take some much higher price to induce new traders to go short silver, otherwise they would have already gone short. This is why silver is so depressed in price Â? 8 traders are short at prices so low that no other legitimate short sellers are interested in selling at current prices.

I would be remiss if I didn't mention that one of the eight big silver shorts, JPMorgan, has already neutralized its COMEX paper short position by virtue of its massive physical silver accumulation over the past five years. In fact, JPM could only buy physical silver because to attempt to buy futures contracts would be seen instantly. This goes to the heart of my double cross premise in which JPM someday steps away from the silver manipulation because it stands to benefit more if silver prices soar. The seven remaining silver shorts, to put it mildly, will be in a world of hurt when that occurs.

Is that day here, considering the strong rally on Friday and today? I don't know. I do think I know that when the silver manipulation does end, the price rallies we've just witnessed will not be the type of rallies typified by the termination of a decades' long manipulation. It is entirely possible that Friday's and today's rallies could lead to the real deal. Then again it's also possible that we may be witnessing more snookering of the technical funds by the commercials.

After buying back tens of thousands of gold short contracts at significant profits on the selloff that ended last Friday, it does look like the commercials are short selling anew to the technical funds at higher prices than recently bought back Â? along the lines of the scam within the scam positioning the commercial are so skilled at. I can't help but lean this way because I see this same thing occurring in other markets, certainly in silver, but also in the PGMs and copper and the dollar index.

Today was the first time in two weeks that we decisively penetrated the 50 day moving averages in gold and silver to the upside on heavy trading volume and that usually translates into heavy technical fund buying and commercial selling. More such additional positioning may be in store on higher prices, but at this point, it would be hard to conclude that the commercials are in any real trouble yet. The commercials have booked big realized profits year to date, first on the upside at the start of the year and on the selloff during May. They don't look to be underwater to any great extent on this rally.

Of course, I may be giving the commercials too much credit and the recent unusual happenings in COMEX gold deliveries and deposits into GLD may point to the COMEX commercials about to experience real financial pain ahead. If JPMorgan has broken ranks with the other commercials, then it could be game over for the manipulation and lights out for the other commercials. Game over would require a genuine blast off in prices from here. Time will tell (and not too much time at that).

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