

## May 30, 2018 – Great Frauds Require Darkness

No doubt you're aware of the massive fraud recently uncovered at Theranos, the high tech medical startup purported to be able to run any number of diagnostic tests from a single drop of blood and not the typical vials worth required. Theranos was a rare "unicorn", a Silicon Valley upstart valued at as much as \$10 billion at its peak and headed by an attractive young woman modeled after the late Steve Jobs, down to his trademark black turtleneck. As it turned out, Theranos' diagnostic machines didn't work as advertised and the whole fraud, said to be the largest since Enron, was uncovered by a sharp and determined reporter at the Wall Street Journal.

<http://nymag.com/daily/intelligencer/2018/05/john-carreyrous-new-book-on-silicon-valley-bad-blood.html>

About the only good news to the uncovering of the fraud at Theranos was that the principle victims were well-connected and powerful investors and not large numbers of average investors. And since the diagnostic machines didn't work as advertised, I suppose it was just a matter of time before the basic fraud was eventually uncovered. But that doesn't change the fact that the reporter, John Carreyrou, who uncovered it was instrumental in the fraud's demise.

The simple answer to how so many supposedly sophisticated investors got blindsided is that they were not only in the dark as to the real facts surrounding the fraud at Theranos, but once invested, they uniformly adopted, knowingly or otherwise, perspectives that perpetuated the fraud. In other words, they developed attitudes and reacted in ways to deny that a fraud existed, most likely to protect their investments. Who willingly agrees to admit to having been hoodwinked?

Therefore, the first rule of great frauds is that the real facts must remain in the dark; while the second rule is for insiders to deny and fight against the facts being brought into the sunlight. In a nutshell, those are the two rules that have enabled the COMEX silver manipulation to exist for as long as it has. Frauds can last an incredibly long time. Theranos was founded in 2003, so the fraud lasted nearly a decade and a half. The silver fraud has lasted for more than three decades, but then again, this fraud is more sophisticated with vested interests much stronger and well-entrenched than the fraud at Theranos.

I believe a big key to the unmasking of the Theranos fraud was the platform on which Carreyrou disseminated his findings – the Wall Street Journal has a total daily subscription base of 2.5 million readers, with more than a fair share of those involved in the financial industry. Carreyrou's first story on Theranos appeared in Oct 2015 and in practically one fell swoop, the real Theranos story was brought out of the dark and into the light, despite a fair amount of resistance from insiders. It's much different with the fraud of the COMEX silver manipulation.

Admittedly, many thousands of individual investors have come to learn of the COMEX silver manipulation fraud over the years, but none have learned about it from a main stream media platform like the Wall Street Journal or 60 Minutes (which also featured Theranos). Word of the COMEX silver fraud has largely been disseminated on the Internet on decidedly non-main stream media platforms. In fact, any reference to the COMEX silver manipulation from mainstream media has tended to undermine the validity of the allegations of fraud on the COMEX. Why is this?

I think it has to do with the nature and complexity of the allegations of fraud in COMEX silver. With

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Theranos, it came down to the very simple proposition of did their blood testing technology work? The equally simple answer was no – so case closed. With silver, it's nowhere near as simple, as the question of price manipulation is far more complex (although I strive to make it simple). Plus, there's another impediment to grasping the silver fraud – one has to accept that it has been going on in full view for quite some time and, therefore, has been missed completely to that point. That's a very difficult proposition for most people to accept. Please allow me to explain.

Most investors feel they are familiar with how prices are derived, namely, through the free market buying and selling by a nearly unlimited number of participants. In commodities, moreover, it is felt that the buying and selling by actual consumers and users and the producers of those commodities is what sets prices – the law of supply and demand. Therefore, a great natural resistance exists when first hearing that contrary to everything that has been learned, instead, a few large paper speculators are making the prices that actual consumers and producers are forced to take. This thought is so contrary to the price process that was assumed to exist that the first reaction is to reject the new concept as merely a way out conspiracy theory, no matter that irrefutable data exists to show that the paper traders on the COMEX are setting silver prices. Who wants to willingly admit he or she had a wrong take on something as basic as the price process in silver?

But a general unwillingness to see the price discovery process as being different from one's prior assumptions is just the start of the impediment to ending the COMEX silver fraud. With Theranos, about the only constituents opposed to seeing the fraud unmasked were those who had invested great sums or time and stood to lose not only money, but suffer reputational damage as well. Thankfully, no legitimate medical authority or securities regulator sought to defend the company after the fraud was alleged.

Unfortunately, nothing could be further from the truth with the COMEX silver fraud, where virtually all the leading supposedly legitimate participants and regulators have aligned themselves to prolong the fraud. Let's start with the primary regulator, the Commodity Futures Trading Commission (CFTC). Whereas the Securities and Exchange Commission wasted little time in finding Theranos to be a fraud, the CFTC has denied the COMEX silver fraud every step of the way, starting more than 30 years ago; although it has basically clammed up on the matter for the past decade, despite more specific allegations of wrongdoing than ever before.

In fact, it is the CFTC's own data that indicates the consistent presence of a concentrated short position (by JPMorgan) over the past ten years in COMEX silver futures that is so dominant and controlling of price that the bank has never once taken a loss when shorting silver, only profits. And in addition to JPMorgan never taking a loss in COMEX silver futures, it has used the result of its price suppression – an artificial low price – to acquire the largest position of physical metal in history, some 700 million ounces and counting. That's nearly seven times the amount of silver bought by the Hunt Brothers in 1980 or Berkshire Hathaway in 1998.

Because the CFTC has denied the existence of a COMEX silver manipulation since 1986 and on multiple occasions thereafter, it has painted itself into the corner of never being able to change its mind, no matter what the evidence may be. For the agency to now admit that silver has been manipulated in price would be tantamount to admitting it obstructed justice for decades. That's just not going to happen. Many Theranos insiders sought to keep that fraud under wraps with a lot less motivation than is facing the CFTC.

An old friend, one who has been aware of the COMEX silver manipulation for 30 years (as I portray it) asked me this week why some insider hadn't stepped forward as a whistleblower. While it's true that new whistleblower incentives have been enacted that make it possible for such an insider to reap a monetary reward of many tens of millions of dollars, none have stepped forward for a very simple reason. Any such award is entirely contingent on the CFTC bringing charges of manipulation in silver, something it has denied for decades. For the CFTC to do so now is about as likely to occur as the US agreeing to completely dismantle its own nuclear arsenal in the pending talks with North Korea - something that's not going to happen.

And it's not just the CFTC that has dug in its heels in ever moving against the COMEX silver manipulation; take the self-regulator, the CME Group, which owns and operates the COMEX, where the silver manipulation fraud is carried out. Were the CME to move against the silver manipulation, not only would it be depriving itself of many millions of dollars in trading revenue, it would be opening itself up to endless lawsuits for allowing the fraud to continue for as long as it has. There is no chance of that.

The leading beneficiary of the COMEX silver manipulation, JPMorgan, has made billions of dollars in illicit trading profits since it became the leading short seller in COMEX silver futures on its takeover of Bear Stearns ten years ago and has used its suppression of prices to amass 700 million oz of actual metal on the cheap. Does anyone think for a moment that JPM would turn itself in for manipulating prices?

Even the chumps and enablers of the COMEX silver manipulation, the managed money traders have no interest in exposing the fraud because it would involve admitting they have squandered investors' funds in a scam and would jeopardize their collection of ongoing management fees. At Theranos, it was a relative handful of inside investors which attempted to keep the fraud in the dark; with the COMEX silver fraud, the list of those keeping the real facts in the dark is a mile long and includes the regulators, the exchange operator, as well as the leading participants, including those on the losing side of the equation. Talk about an entrenched fraud.

Pitted against the powerful insiders intent on keeping the COMEX silver fraud in the dark are everyone else in the world, including mining companies and silver investors, the vast majority of which don't have a clue about the fraud, or worse, those who suspect something is wrong but refuse to acknowledge it. In this group are included those who denied the silver manipulation early on and can't face up to admitting they were wrong even as compelling new data proving fraud roll in. There seems to be a lot of that nowadays.

The surest proof of the COMEX silver manipulation fraud is the refusal of the insiders to openly discuss

that which must be confined to the dark. The CFTC refuses to answer or refute direct and specific allegations, like JPMorgan never taking a loss in shorting COMEX silver and the fact that JPM has been the leading short seller all while amassing more physical silver than any entity in history. And JPMorgan and the CME Group are so intent and keeping the real facts under wraps that both shrug off public allegations of criminal behavior that would normally bring charges of libel and slander were the allegations not to be true. Let me be clear, both JPMorgan and the CME Group are stone-cold crooks when it comes to silver.

Even though the Theranos insiders did their best to keep the real facts in the dark, in the end the truth won out. So too will this be the case with the COMEX silver fraud. Sure, it has taken much longer with silver, but then again the insiders are much more formidable because the stakes are so much higher. With Theranos, the fraud was with a privately held high tech startup; with COMEX silver we are talking about a world commodity in which everyone, including the regulators, the world's leading exchange and the world's most important bank, are up to their eyeballs in keeping things in the dark.

Not only are the stakes much higher in silver, so are the potential rewards. There was no real profit opportunity in exposing the Theranos fraud because there was no public trading or the opportunity to short the shares. With silver, there is nothing but an immense profit opportunity because the net result of the COMEX fraud has been to create an artificially low price on a commodity quite literally known to everyone in the world. Considering all the many ways of doing so, buying cheap silver is about as easy as falling off a log.

And given the power and connections of those most responsible for the COMEX silver fraud, the CFTC, JPMorgan and the CME, I can easily foresee a circumstance where the real facts are kept in the dark, yet the price still explodes. Regardless of whether the facts ever become widely known, no manipulation lasts forever and this sets up the possibility of silver exploding in price with those most responsible for the manipulation never spilling the beans. All three, the CFTC, JPM and the CME, will remain mum, while JPMorgan cashes in on tremendous, but ill-gotten gains and the rest of the world makes up silly reasons for why silver prices rose sharply. In fact, it is an outcome I've resigned myself to. Either way, with the facts staying in the dark or becoming exposed, silver prices will explode.

Turning to price action since the Saturday review, the good news is that the weakness displayed yesterday (combined with Monday's holiday weakness), should have moderated the certain managed money buying and market structure deterioration which occurred on last Thursday's rally, particularly in silver. Yesterday's trading volume in silver was especially high and with prices once again penetrating the key 50 day moving average to the downside, the selling had to be predominantly of the managed money technical fund variety.

The trading volume in gold yesterday while sky-high looked to be mostly of the typical roll-over volume associated with tomorrow's first notice of delivery day in June gold, always a traditionally big delivery month. Because of the roll-overs and the fact that gold has remained below its key 200 day moving average (as well as its 50 day ma), it's hard to get a read on how much managed money selling occurred in gold, although I didn't detect much. I do think there was heavy managed money buying in gold last Thursday, even though no moving averages were penetrated to the upside (as was the case in silver), but I'd love to be wrong.

As far as what this week's COT report will indicate, once again, I'm not sure. On Friday, I would have ventured that there was substantial managed money buying in both gold and silver as a result of

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Thursday's big rally in each, but I'm thinking much of the deterioration in silver may have been offset by yesterday's cutoff day selloff. To complicate matters further, the first day of the reporting week, last Wednesday, featured a high volume selloff in silver. It's as if the managed money traders were getting whipsawed on a daily basis in silver, as prices fell and rose through the 50 day moving average. I'd be quite happy with an unchanged reading in silver and no more than a 15,000 net contract increase in managed money buying in gold and ecstatic with less managed money buying in each than that. However, this is one of those reporting weeks where nothing would surprise me.

I still feel that there has been a shift in the relative market structures in gold and silver as I tried to convey on Saturday, with gold's structure having turned relatively better than silver's of late. For much of this year, silver's market structure was extremely bullish, while gold's was nowhere near as bullish. Now, gold has appeared to catch up in terms of market structure. Therefore, I was not particularly surprised at gold's better relative price performance through yesterday. However, that's not to say that the market structures in both gold and silver are not bullish enough to support price rallies of significant proportions.

I am concerned about JPMorgan's apparent willingness to add to short positions in silver over the past three reporting weeks and also its apparent adding of short positions in gold last week as the short seller of first resort and not just last resort. JPMorgan is the main crook in both silver and gold and what it does will largely determine prices. Since no one can read JPM's intentions beforehand, gold and silver are at its mercy; although the fact that JPMorgan holds important quantities of physical metal (700 million oz in silver and 20 million oz in gold) leaves open the possibility that prices could rocket higher with virtually no advance notice.

Ted Butler

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Silver – \$16.52 (200 day ma – \$16.80, 50 day ma – \$16.54)

Gold – \$1301 (200 day ma – \$1309, 50 day ma – \$1323)

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