

November 1, 2017 – Every Picture Tells a Story

(A quick housekeeping note – I’ve been without power since late Sunday like many in Maine and had to check into a downtown Portland hotel to send this out. Hopefully, power will be restored by Saturday’s review, but a delay is possible. Sorry about not responding yet to emails).

It is said that a picture is worth a thousand words. I’ve just run across a graphic that understates that premise. I had no direct role in creating this visual, but the information it covers so closely mirrors much of what I’ve written over the years that I’m fairly sure that past writings must have had some influence, perhaps osmosis-like. In any event, I would ask that you take the time to view and think about the information presented, as it provides the best visual depiction for the investment case for silver.

<http://www.visualcapitalist.com/worlds-money-markets-one-visualization-2017/>

What the graphic displays is the capitalizations of various markets and other benchmarks. Capitalization is a fancy word to measure what various markets are worth in total dollar terms. The computation itself is simple enough; just multiply the current price by how much of a market that exists. To get the total value or market capitalization of a company’s stock, simply multiply the current price times all the shares that exist. While not usually referred to daily, such total values are important for a number of reasons, particularly relative comparison purposes.

While I didn’t choose the markets depicted in the graphic, I might as well have, because the relative comparisons are the same ones I’ve written about previously. It starts with silver, whose market capitalization is but a fraction of all the other markets and measurements depicted. In fact, in the graphic, silver is the only asset or market which doesn’t even qualify for a full single unit (\$100 billion) by which all the various markets and benchmarks are measured. In most cases, the market capitalization of silver or what all the silver that exists is worth, is just a tiny speck compared to the total worth of other markets depicted. This is important for a number of reasons.

For one, such relative market capitalizations help frame a sense of over or under relative valuations between different markets. In fact, these relative comparisons serve as the springboard for further analysis. A market that appears overvalued relative to other markets, for instance, might turn out to be fairly valued or even undervalued upon deploying other valuation metrics. But that doesn’t detract from the concept of using relative market capitalizations as an ideal starting point in the valuation process.

Turning specifically to silver and its mini-micro total market capitalization relative to all other markets, there is much to be considered. The first question that comes to mind is why is silver's market capitalization so small relative to everything else? It is clear that the creator of the graphic is only including silver in the form of 1000 oz bars that are documented and visible and not other forms of the metal. I happen to agree that this should be the only form of silver that should be included, given that this is the form that will determine future price. After all, this is the form of silver in which there was a budding physical shortage in early 2011 that led to the run up in prices to near \$50. Silver prices will reflect the status of metal in the form of 1000 oz bars and not in other forms, like coins.

Even though the graphic depicts silver as having a fraction of the total market capitalization of all other markets presented, based upon other known data, in some ways the amount of silver is actually overstated. For one thing, of the roughly one billion oz that exists in the documented world inventory of 1000 oz bars, most of which are held in exchange traded funds (ETFs), we know that more than ten percent is held, essentially, by one entity, JPMorgan, in its own COMEX silver warehouse (115.8 million oz). Some may argue that JPMorgan doesn't necessarily own that silver itself and that it may be held for customers instead, but the fact that the bank took delivery of that metal in its own name points to it being the owner. My point is that I am aware of no other market where more than ten percent of the entire market is held by one entity, only silver. So in addition to silver having the smallest market capitalization of all, it is also more closely held than any other market.

In reality, I am convinced that JPMorgan owns a total of 650 million oz of physical silver, including its COMEX warehouse holdings or more than 40% of the 1.5 billion oz that exists in the world, but let me stick to the information portrayed in the graphic today.

Other public data, in the form of published weekly reports by the CFTC, also reveal a startling anomaly in silver in that 50% of all the silver said to exist is held short in COMEX silver futures contracts by just 8 traders, the largest of which is JPMorgan. In many markets, including real estate and crypto currencies, no short position exists and even in markets where short selling exists, like stocks and bonds, the level of short selling is a fraction of what exists in silver. If anyone is looking for an obvious reason why silver is so cheap and why its market capitalization is so tiny, look no further than the concentrated short position of the 8 largest traders on the COMEX.

There are only two metals depicted in the graphic, silver and gold, the only age-old investment metals. But whereas silver's market capitalization is \$17 billion, gold's market capitalization is \$7.7 trillion, or 450 times larger than silver's. Stated differently, silver's market capitalization is barely more than 0.2% of gold's market capitalization. Never in history has silver been so cheap relative to gold or gold more expensive relative to silver in terms of total market capitalizations. Yes, the graphic (remember, not my graphic) depicts silver in terms of 1000 oz bars and gold in all forms, but there is good reason for that, mainly because even one ounce of gold represents a substantial amount of money for the vast majority of the world's 7.4 billion citizens.

I'm not suggesting that gold is vastly overpriced, even though its relative market capitalization vastly exceeds silver's. I am stating that silver is way too cheap relative to gold and everything else, as depicted in the graphic. True, there is a concentrated short position held in COMEX gold futures by 8 traders, but at the equivalent of 25 million oz, that short position is only one half of one percent of the 5.8 billion oz depicted in the graphic and not the 50% of all the silver said to exist in the form of 1000 oz bars. There's a mighty big difference and price effect between a concentrated short position of

one half of one percent and fifty percent.

Not explained in the graphic is how the physical amount of silver in existence (not market capitalization) came to be less than one-fifth the amount of all the gold that exists, or one billion oz of silver versus 5.8 billion oz of gold. One hundred years ago, there was twice as much physical silver in the world than there was of gold. Where did all that silver go and how did it disappear?

The short answer is that the silver was consumed industrially, befitting silver's chemical properties of being the best conductor of electricity and heat and the best reflector of light, among other properties, making it vital in modern times. Gold has many fine properties as well, however, its relative high price discouraged widespread industrial consumption. That's not a knock on gold, just a reflection of reality. There is a reason why more gold exists than silver today, when the opposite was true throughout world history up until the past 50 to 100 years. No tricks here.

So what are the investment implications of silver's microscopic relative market capitalization? I believe those implications are profound and point to silver being the investment star of stars in the future. One commonality that exists in all of the markets depicted in the graphic is that all are driven by investment flows. When there is positive money flow into a market that market moves higher. When investment flows turns negative, or sellers become more aggressive than buyers that market will fall. A number of points.

First, silver's market capitalization is so small and price action has been so weak for so many years that it is virtually impossible for there to be widespread investor selling at this point. This is particularly true when one considers that the largest physical buyer over the past six and a half years has been JPMorgan. Because hardly anyone has been buying silver for so long, aside from JPMorgan, there is hardly any selling pressure left. It is easy to imagine pronounced selling pressure emanating at some point from markets (virtually all) that have reached historically large market capitalizations, but the exact opposite circumstance exists in silver. File this under the "you can't get blood by squeezing a stone" principle.

Most importantly, the reason why silver has a microscopic market capitalization is clear to anyone who looks objectively, namely, the aforementioned obscenely large concentrated short position on the COMEX. Actually, there are two reasons for silver's unusually tiny market capitalization - the small amount of existing silver remaining in the world and the depressed price. But viewed properly, neither add up to expecting low prices to continue indefinitely. There is no legitimate explanation for why 8 traders on the COMEX, not one of them engaged in bona fide hedging or economic enterprise, would hold half of all the silver said to exist short. Throughout history, most illegitimate activities tend to meet a violent end and I would expect the same in silver. I suppose it is possible that someone could come up with a legitimate explanation for why 8 traders would be short such an obscenely large amount of silver short; about as possible as seeing pigs fly.

Importantly, the only feasible way for silver's tiny market capitalization to increase is by the price of silver climbing. That's because the same reason that caused the world's inventory of silver to fall more than 90% over the past half-century, industrial consumption, is still in force. With world silver inventories already vastly depleted, I suppose it's not likely we will witness a similar depletion in the future. But industrial consumption of silver is hardly abating, particularly in new ways (like in solar energy), that it is also virtually impossible for world inventories to climb meaningfully. Thus, silver's market capitalization can only grow by virtue of price appreciation.

In many ways, the tiny market capitalization of silver makes it a "sitting duck" for eventual investor flows from other markets that have extremely large and growing capitalizations. Sooner or later, investors will look to exit richly valued markets in search of better opportunities elsewhere and a certain percentage will become interested in silver. Fear and greed still drive markets and silver's incredibly tiny market capitalization and value point to fear being largely played out. As and when greed enters into the tiny market capitalization of silver, it must be accompanied by higher prices, whether other markets fall or not.

Again, I did not create the visual linked today, but I do very much agree with its scale and presentation. And I believe the thought process and perspective it should trigger is worth many thousands of words. The absolute and relative market capitalization for silver goes to the core of its past and future price. The tiny market capitalization should stand out like a sore thumb, as should the facts surrounding the matter.

In time, once the blatant manipulation exists no more, the market capitalization in silver will reflect that. Just to get to one full unit in the graphic (\$100 billion), silver would need to climb five or six fold in price and it would still be the cheapest and smallest market of all. Considering other markets sport market capitalizations measured in the trillions of dollars, it becomes hard to imagine what price silver could attain should its market capitalization become as truly overdone as it is underdone today.

In developments since Saturday, I have been somewhat removed from the usual flow of events given the no electric power circumstances, but I did manage to catch the pop in silver prices today through noontime. Unfortunately, I must publish this article early due to hotel check out requirements. While the large size of the concentrated short position would still seem to favor the probability of a downside resolution, silver has enough wild card factors that any price pop could morph into the big one. I know of no way of accurately predicting exactly when that might, just that it will occur at some point. I also have no strong convictions about what this Friday's COT report will show and will stick to analyzing the report after it is released. In any event, today's price action wouldn't have been included anyway.

Hoping power will be restored by Saturday's review or shortly thereafter or I can make alternative arrangements. Thanks for your understanding.

Ted Butler

November 1, 2017

Silver – \$17.15 (200 day ma – \$17.18, 50 day ma – \$17.21)

Gold – \$1279 (200 day ma – \$1261, 50 day ma – \$1301)

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