November 19, 2010 – Interview with Jim Cook

Interview with Jim Cook

Here's a sneak preview of an interview I did recently with Jim Cook, President of Investment Rarities, which we did earlier this week. Subscribers will undoubtedly recognize that Jim chose to excerpt some answers that I had previously written in articles to you. This interview will be available publicly early next week.

Cook: For the past ten years you have been claiming that silver was the best thing people could own. How do you feel now with silver around $25 an ounce?
Butler: I have a sense of relief that I could not possibly have hurt anyone who followed my advice. I also feel intellectually vindicated about the way things are turning out. Lastly, I feel amazed how good silver still looks for further gains
Cook: How high could it climb?
Butler: Real high, but by now you should know I shy away from specific price targets.
Cook: A lot has been going on with silver lately. Most of the things you've written about are starting to happen. What do you think about the recent spate of lawsuits against JPMorgan and HSBC?
Butler: It's a big deal. The main thing is not the outcome of this case, but rather the fact that they were filed.
Cook: How many lawsuits were filed?
Butler: The latest tally is 25, I've been told.
Cook: Why do you think these lawsuits are important?
Butler: It is another confirmation of the growing recognition that silver has been manipulated in price.
Cook: They must be reading your newsletter because everything claimed in the first lawsuit originated with you. Do you agree?
Butler: Yes, I know that for a fact.
Cook: The basis of the lawsuit is that these big banks are short an inordinate amount of silver. How much to be exact?
Butler: It varies over time, but at the time referenced in the lawsuit, JPMorgan, either alone or with another U.S. bank, held short on the COMEX the equivalent of 25% of world annual mine production
Cook: How many ounces is that?
Butler: In most recent CFTC data, it is 150 million ounces, but within the past year it has been over 200 million ounces
Cook: You're claiming that's manipulative?
Butler: Absolutely. It would be impossible for such a concentrated short position not to be manipulative. It was this observation that led to the current CFTC silver investigation

which, in turn, led to this lawsuit.
Cook: How many ounces are there held short in total?
Butler: The total net short position in COMEX futures is around 550 million ounces, but if you include everything, especially unbacked bank certificates and pool accounts, it grows to 2 or 3 billion ounces.
Cook: Who are these short sellers outside of the big one or two?
Butler: On the COMEX, there are about 8 commercial entities short over 300 million ounces, including the biggest.
Cook: They got squeezed pretty good when silver hit $29, didn't they?
Butler: You bet.
Cook: How big have the losses been for the shorts?
Butler: In silver, the big 8 were out over $3 billion at the top, and more than $5 billion if you include all the shorts.
Cook: You pointed out that there had to be a lot of margin calls, when gold is included, what's the total?
Butler: All in all, almost $15 billion.
Cook: They actually had to cough up $15 billion?
Butler: Absolutely. That's a key component of the clearinghouse system.
Cook: Did anybody fail to make their margin calls?
Butler: It's hard to tell.
Cook: I thought the price rise to $29 might have been because some folks couldn't make margin calls and the brokerage firm bought back their position. No?
Butler: I'm certain there was a lot of that; they liquidate the contracts to satisfy the margin calls.
Cook: They don't mess around do they?
Butler: This is basic commodity stuff. As a customer, if you don't meet your margin calls your broker will liquidate your position. Otherwise the brokerage firm must eat the customer's loss. Brokerage firms don't allow customers a free ride. If a brokerage firm doesn't meet its overall margin requirements to the clearinghouse, that's a default, a real no-no.
Cook: It's hard for me to believe that JPMorgan is sitting flatfooted waiting for the axe to fall. Don't you think they've dug up a lot of silver to help reduce this short position?
Butler: I'm sure they've come up with as much silver as possible, but there are physical constraints to that. Their problem is not a money problem, but a physical material problem.
Cook: I see they raised margin requirements on silver. Why only silver?
Butler: Silver had moved the most and the margins should have been raised. The scandal was when they raised the margins. This is an issue of timing. They waited until prices made a downside reversal and then raised silver margins.
Cook: Is this fishy?
Butler: This is an example of why I refer to the CME Group (COMEX) as operating a criminal enterprise, as I've seen them pull this dirty trick numerous times in the past. The exchange times the margin increase so that it comes when it is least likely to hurt,

and maybe help, its big constituent member short holders. That time is always best when the price makes a sudden reversal down after a big climb. This way, the margin increase actually hurts the longs and benefits the shorts. The reversal to the downside swings the financial tide against the longs temporarily.

Cook: What should they have done?

Butler: What they should have done is raised margins on the way up, but that would have hurt the shorts, something the exchange would never do. By timing the margin increase just after a price reversal to the downside, the exchange helps the shorts.

Cook: Are they above the law?

Butler: What's particularly infuriating and illegal is that the exchange is designated under commodity law as a self-regulatory organization (SRO). That means the CME Group is supposed to do things on a fair and even-handed basis, not cater to the selfish interests of its most important members. The phrase that comes to mind when describing how the CME fulfills its regulatory obligations is letting the fox guard the henhouse.

Cook: How in the world did this come about?

Butler: The CFTC and Congress made a very big mistake when they turned over so much regulation to the exchanges years ago. There is a conflict of interest in what the exchange does in its regulatory role. That's why the COMEX is fighting the CFTC tooth and nail over position limits and every other issue that may infringe on its own interests.

Cook: The Commodity Future Trading Commission has ruled that within 3 months or so they will put limits on how much one entity can be long or short. Will this break up the concentrated short position?

Butler: If they stick to the timeline dictated by the new law and if they impose legitimate limits and throw out the phony exemptions to those limits.

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