November 23, 2010 – The Final Warning?

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As we approach the American holiday of Thanksgiving, silver and gold investors have much to celebrate. This year, with so much financial hardship throughout the world, it's important to reflect on how much we have to give thanks for. As important as personal financial gains may be, we must strive to keep things in perspective and remember what's truly important in life, including the plight of the less fortunate around us. For myself, I am most grateful that my analysis should not have hurt anyone and has benefitted many. With that in mind, please allow me to vent about something that I still worry about.

As I've written in the past, one of the great tragedies that will come out of the great bull market in silver will be that those who invest in the wrong form of silver may wake up to find their silver investment worthless. That will come as a result of not being invested in real silver, which I define as metal in your personal possession or stored for you in the safest manner possible. The safest storage manner possible is further defined as you having the serial numbers and weights of all 1000 oz bars stored on your behalf, with you having the right to immediate possession of those bars on your demand. The only exception to those requirements would be silver held for you by a publicly-traded ETF, such as SLV, or similar vehicles (such as the new Sprott silver ETF). These qualify as the right forms of stored silver. One last qualifier for the right form of stored silver is never storing your silver with whoever sold you the metal originally.

A clear example of the wrong form of silver would be privately offered pool accounts or unallocated storage programs, where no serial numbers or bar weights are given, or if you can't demand immediate delivery of the silver stored for you. One of the warning signs for such accounts was if metal was allegedly held for you but no storage charges were charged for the service. But even being charged for storage is no solid assurance that real metal was being held; as the Morgan Stanley class-action settlement demonstrated. You must secure the serial numbers and specific bar weights. Certainly, this is not a new issue for me, as I've been writing about this for years. Here's an article I wrote almost four years ago, in which I specifically named two prominent providers of pool and unallocated accounts, kitco.com and the Perth Mint
https://www.butlerresearch.com/buyerbeware.html

My intent, then and now, was not to libel or malign either organization in any way. I was actually trying to help them to avoid problems in the future and spare harm to anyone who invested in such accounts. I could foresee that a silver price rise could harm the providers and investors alike. The main problem was my conviction that the silver (and gold) that supposedly backed pool and unallocated accounts didn't exist, leaving both issuer and investor at grave risk if prices rose. I concluded the metal didn't exist in these accounts because it made no real economic sense to the issuers otherwise. Why would someone store silver for free?

At the time of my article, the price of silver was a little more than $13; it has since doubled. So has the price of gold. If, as I contend, no real metal backing stands behind the pool or unallocated accounts issued by these and other companies and banks, then investors in these and similar accounts now have tremendous open profits and the issuers have equal (but undisclosed) open liabilities. An individual issuer could easily be out tens and hundreds of millions of dollars, with the total liability of all such issuers running into the many billions of dollars. You must remember that there is no central regulator governing pool or unallocated accounts and no mark-to-market or clearinghouse protections exist. If ever a problem existed, namely the metal didn't exist, there would be no way for an investor to find out until it was too late. Such investors may suddenly find themselves at the end of a long line of unsecured creditors and not as a true investor in silver grateful for big gains.

Maybe I'm all wet on this issue, but my common sense tells me that there is a strong possibility that much, if not all, of the metal supposedly backing pool or unallocated accounts simply does not exist, as I explained in the original article. If I am correct, a horrible day of awakening lies ahead for participants in such accounts. And if you are questioning how something like this could go on for many years, the answer is that until pool account investors start to pull big money out of such programs, there is no actual cash drain to the issuers. Silver (and gold) investors holding for the long pull have had little reason to cash out of such programs yet. The key word is yet. If and when they do, it may be a very different story.

Hopefully, no subscriber is an investor in pool or unallocated accounts. If, however, you are, you must act before it is too late. Fortunately, the remedy is simple Â? switch to real metal in your own possession or to a bona fide storage program, preferably in a company that doesn't even offer pool or unallocated metal accounts as an option. The worst imaginable outcome for someone who has invested in silver is to wake up someday and realize you held the wrong form of silver. Instead of enjoying profits that can alter your standard of living and benefit your family, you may face a lifetime of regret. You must not allow that to occur.

Due to the holiday, the COT Report will be delayed until Monday, although I do plan a regular weekly review on Saturday

Part two of my recent interview with Chris Martenson is now available for subscribers in the audio section of the articles page. (Click on the play symbol on the black bar). Happy Thanksgiving to all.

Ted Butler

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Date Created
2010/11/23