November 27, 2013 – The Billionaires’ Club

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UBS had a report recently which indicated there were 2170 billionaires in the world with a total worth of $6.5 trillion. (It's always instructive to remember that a billion is 1000 million and a trillion is 1000 billion). There was a twist to the report which suggested that there were identifiable groupings in the world of billionaires that magnified the total financial influence and assets by many trillions of dollars beyond that. When you think about, it makes sense that billionaires would tend to pal around with other wealthy people, even those only worth $500 million or so. Birds of a feather tend to flock together, as do people with similar interests and backgrounds.

Naturally, the talk of billionaires controlling many trillions of dollars of assets and buying power brought the obvious question of why hasn't some billionaire splashed into the silver market and sent the price spiraling upward. It's a question I have been asked often and I thought I might share some thoughts. It's certainly a good question and deserves to be answered. I think the real question is why hasn't some billionaire burst into silver yet or, more correctly, recently. After all, the silver market and billionaires share some mutual history.

More than 40 years ago, the billionaire Hunt Brothers, led by Bunker, started buying silver under $2 an oz. In no small measure of Hunt's impact on price, from a low of around $1.50 in late 1972 silver soared to more than $6 in 1974. The price of silver didn't do much for the next few years (not dissimilar to the last couple of years), holding just below $5 until 1978. The Hunts then upped their buying and persuaded other big investors to join in, setting in place the historic run to $50 in early 1980. Because the Hunts' position was highly leveraged, it turned out that they lost their silver position along with a ton of money in the March 1980 crash to $10.

The next billionaire/silver connection came in 1997, when Warren Buffett began buying (eventually buying around 130 million oz). Prior to 1997, silver had mostly languished for a decade around $5. From a low of under $4.25 in the summer of 1997, the price jumped to $8 by the start of February 1998, when Buffett's buying became public (disclosed because the metal was purchased by publicly-owned Berkshire Hathaway). Silver prices then fell back below $5 and stayed there for near another five or six years. Buffett sold the silver for around $7 in 2006, just as silver was embarking on five year and seven fold price journey to $50 in 2011.

While I was employed as a commodity broker the entire time since the Hunts started buying silver in the early 1970's and was professionally involved in the silver market thru 1986, my knowledge of the Hunts came from the public record after 1979-80. The second billionaire silver connection was much closer to heart, so please let me share some personal history.

In a nutshell, I had uncovered the silver manipulation in 1985 and wasted no time in appealing to the CFTC and the exchanges about the collusive and concentrated short selling in COMEX silver. For the next ten years, I did what I could to spread the word and to help terminate the manipulation; mostly writing letters and calling the regulators and industry people. Aside from creating an historical record, my efforts had zero impact on the price of silver. Then in 1996, I was exposed to the Internet and began writing publicly about the same issues I had written about privately in my former analog world.

As it turned out, Warren Buffett had been considering an investment in silver for many years prior to him buying in 1997. He was intrigued by silver's supply/demand circumstances which featured a long term consumption deficit, namely, the rare situation of total current production being insufficient to meet total demand for years on end, necessitating the depletion of world inventories. While a true commodity deficit could last a year or so, until available inventories were exhausted; silver's consumption deficit had run for more than 60 years, defying the law of supply and demand. What troubled Buffett was that he couldn't figure out why the price didn't rise and where the heck was the silver coming from to satisfy demand. Not finding answers he could understand, Buffett held off on buying silver.

In 1985, my silver friend and mentor, Izzy Freidman, had challenged me with the same puzzle Buffett had been considering about that same time. It took me a year to answer the first part of the puzzle Â? the unusually low price – and another ten years to uncover the second part Â? where was the silver coming from to satisfy demand? My background as a commodities broker enabled me to see that the price was low because of the concentrated short selling on the COMEX, but I wouldn't learn until much later that silver leasing was the mechanism for the uneconomic dumping of physical metal on the market. Because I became aware of gold and silver leasing just prior to my introduction to the Internet, that was the topic I wrote about first, although I didn't waste much time in writing about the COMEX short selling in silver as well.

I may be delusional, but I am convinced that Warren Buffett learned the answer to the two puzzles he had about silver from my articles on the Internet. Certainly the timeline fits – I started writing in 1996; he started buying a year later Â? as well as the answers; he got the explanations he sought and since those answers were ultra-bullish in that short selling and leasing were temporary phenomena, Buffett did what came natural to a man of his means – he bought a bigger chunk of silver than even the Hunt Bros.

As to why Buffett sold at $7 just as silver began a five-year run to $50, the answer was always clear to me. After acquiring the silver in 1998, Buffett began to play the Â?skin the fundsÂ? game Â? basically assuming the role that JPMorgan has filled over the last 6 years. You know the game; I write about it in every article when I discuss market structure and the COT report. Buffett, holding 130 million oz of physical silver, could and did sell as many as 26,000 contracts of COMEX silver contracts short whenever the technical funds came into buy. He would then wait until the same tech funds sold, which they always did on price sell-offs, and repurchase his contracts sold short, most often at great recurring profits. The regulators left him alone because he owned the silver; even though what he was doing was manipulating the price through a controlling position. Not having fallen off the turnip truck, Buffett turned a great long term investment into a consistent short term money maker, as one may expect from the world's premier investor.

However, by 2006, investment demand had finally reawakened in silver after an absence of 50 years and the world's first silver ETF, SLV, was announced. In hindsight, it is clear the sponsors of SLV turned to the world's most liquid silver market, the COMEX, to price anticipated metal purchases. This SLV- related buying was satisfied by Buffett selling short into what he assumed was technical fund buying. When it turned out that it was real buying, Buffett had two choices Â? buy back his short contracts on the COMEX or let the long contract holders, effectively, take delivery of his silver stockpile.

If Buffett tried to buy back his shorted contracts, the price would have exploded (he was, after all, the former seller of last resort) and Buffett would have had to disclose he had been speculating and possibly manipulating the price of silver for years and had gotten caught on the short side. It would have potential serious implications for his reputation, which is all that really matters in the end. So he took the less damaging way out Â? just shrug and offer, in an aw-shucks manner, Â?I sold too soonÂ? and avoid any discussion about silver forever. This is not new stuff. http://news.silverseek.com/TedButler/1147188385.php

As history shows, billionaires and silver do mix and when they do prices move sharply higher, at least for a while. What are the chances that another member of the billionaires' club might find his or her way into silver? Frankly, I don't see how it can be avoided. After all there are a heck of lot more billionaires today than there were in 1980 or 1998 and the amount of their collective buying power has never been greater.

At the same time, there is much less silver in existence or available today than there was in 1980 or 1998. In 1980, there was 3 to 4 billion oz of silver bullion in the world vs. the 1 to 1.3 billion today (in 1000 oz bars), including many hundreds of millions of ounces in government hands back then. There was probably a similar amount of silver in existence in 1998 as there is today, but thanks to the ETFs, most silver today is held in incredibly diverse public hands versus the privately-held stockpiles of 1998.

In simple terms, it was easier for Buffett to buy 130 million oz in 1998 than it would be for someone to buy that amount today. That premise, of course, will only be tested when someone tries to buy a large amount of silver. And please remember, when Buffett announced his silver purchase was announced in Feb 1998, he also proclaimed that he would accommodate those who sold silver short to him and allow those short to delay delivery to Berkshire (for a fee). When you look slightly beneath the surface, it's clear to see that Buffett hadn't received all of the 130 million oz announced as being already purchased. My point is that silver was in tight supply back then and is still in tight supply today; as the next big investment surge will prove.

One thing seems to be for sure; no one big has tried to buy a significant chunk of silver since Buffett. At least, nothing has shown up in the records that can be documented. The largest holder of SLV has slightly more than a 2% share (7.2 million shares/oz) and no notable big long has been seen in either COT reports or COMEX silver deliveries to date. While there are more than 2000 billionaires in the world, that's a very small percentage of the world's 7 billion inhabitants (less than one one-thousandth of one percent). And I suppose if you picked any two thousand random people in the world, it wouldn't be a terrible surprise not to find a serious silver investor in that grouping.

But for the 2170 people at the pinnacle of financial wealth in the world (and the many tens of thousands extremely well-off), it is almost impossible to imagine that, given time, some of these ultra-wealthy citizens won't find their way to silver in the end. I concede it probably won't be the Hunt Brothers or Warren Buffett again, but there are a lot more billionaires to choose from anyway. My point is that billionaires (and their financial advisors) are generally as smart as they come and should any of them sit down and study the facts in silver, they will reach the same conclusion that Bunker Hunt and Warren Buffett reached decades earlier.

As sharp investors, billionaires and near-billionaires have the same goals and objectives as any investor; preserving and growing assets. The principal method of investing for the growth and preservation of capital for the long term is through diversification. When you have a thousand dollars to invest, there are practical limits to how much you can diversify. With a billion dollars to invest, the challenge instead is finding enough good choices for diversification. It is the quest for growth and preservation that guarantees that billionaire involvement with silver didn't end with Hunt or Buffett. The surprise is that such a new billionaire/silver involvement hasn't occurred yet.

My best guess for why big investors haven't turned to silver recently is because none have looked closely. Let's face it; there have been plenty of traditional investments that have performed admirably over the recent past; stocks, bonds and real estate, as well as the wealth created from the US energy boom. Therefore, there's been no compelling necessity to look away from traditional assets. Besides, silver performance has been so rotten, it could only be of interest to true contrarians. But, almost as regularly as the seasons, investment performance and sentiment changes. One thing is for sure Â? the collective value of all traditional investments is at all time record high points, not just for stocks, bonds and real estate, but for nearly everything in the world of great wealth, such as art and collectibles.

Therefore, when the inevitable turn in one or more traditional investment markets arrives, there will be a potentially greater rush to diversification alternatives. Not only is silver one of the very few assets not to have participated to the great sweep upward in markets this year; it has dropped sharply in price. This has resulted in a vastly underappreciated circumstance Â? there has never been more total world investment worth and buying power than now and that exists at a time when the amount of silver available for investment may be at a low of historical proportions.

Certainly, the true condition of the silver market is easier to examine today than was the case in 1980 when the Internet didn't exist or in 1998 when instant worldwide communication was in its infancy. Billionaires are as connected as anyone. In 1980 or 1998, there was no widespread dissemination of allegations of a silver manipulation; today, I believe that has gotten to be the key issue. Today, anyone can examine and decide for him or herself if silver has been in a free market or has been manipulated lower in price. The allegations are specific and simple to accept or reject. In my experience, those that look closely and objectively tend to become convinced silver is artificially underpriced.

For the life of me, I can't come up with a true free market explanation for what has transpired in silver over the past 30 years and it is something I try to fathom every day. Manipulation alone provides the only plausible explanation for just about every price development. It's gotten to the point of being accompanied by specific accusations against JPMorgan, which go unchallenged. Considering how sharp and detailed the manipulation allegations have become, it's much easier to imagine the story penetrating the ultra-wealthy.

Underlying the great potential surge in silver investment buying is the starkly limited dollar amount of silver available for purchase. This is at the heart of the price explosion potential. The 100 million ounces of new silver available for purchase throughout the world annually is worth $2 billion at current prices. Two billion dollars is not even a rounding error to the $6.5 trillion collective worth of the world's billionaires. Two billion dollars is much less than the $3 billion average worth of each billionaire. Let me state that in different words Â? at current prices, all the new silver available for investment in the world for a year is worth less than the average wealth of one billionaire. The best part is even at substantially higher silver prices, the equation changes little. At $50 an ounce, only $5 billion would be needed to buy all the worlds newly produced silver. This leaves room for massive increases in the price of silver.

If history is any guide, it won't be terribly surprising for another billionaire or two to turn to silver. I don't think the silver market needs a billionaire to bail it out, as was proven in the great march to $50 in 2011; instead it's hard to imagine silver continuing to be overlooked by the world's ultra-wealth for too much longer. And since the ultra-wealthy hang around with those of similar circumstance, it's real easy imagining the silver story circulating in that club.

A few words about price action this week, which has been choppy and disappointing amid extremely low holiday trading volume (save for roll-overs ahead of Friday's first delivery day for COMEX metals). The one thing you can deduce from low trading volume is that the structure of market positions remains intact. The technical funds are extremely short in COMEX gold, silver and copper and that will be reflected in the next COT report, which won't be released until late Monday due to the Thanksgiving holiday. My guess is the technical funds are at or near the extreme high level of gold and silver short positions they held at the extreme low prices of late June, early July.

I've read recent commentary that suggests this technical fund selling is bearish because it shows that speculators expect prices to move lower still. I admit that the short selling by technical funds (tricked by the commercials) is what has caused prices to move lower, but once the short sales are completed, the downward price pressure is spent. Only continued new short selling can press price lower still. Once the technical fund short selling is complete, all the previously completed short sales are automatically turned into potential buying power.

Therefore, considering that there is some limit to how many gold and silver contracts the technical funds can sell short and that we are close to historical high-water marks for such short sales, the gold and silver market are set up very bullishly. Yes, prices may move lower still if there are more technical fund short sales capable of being lured into the market on lower prices; but it is important to recognize how far along we have come to this point. I think it's a matter of proper perspective.

Given the extreme market structure, I think the biggest mistake one could make is looking at silver with bearish eyes. Yes, the decline in price this year and recently is the sole cause for a bearish view; but in reality it is a view rooted in hindsight, not foresight. Looking ahead, this is what I see in the short term. At some point, the technical funds will stop selling and start buying. These fund have sold short close to 70,000 (or more) new gold contracts and 15,000 new silver contracts short over the past month and have open profits of roughly $50 in gold and one dollar in silver. If they add new short contracts it will come on lower prices. I don't see any chance that the commercials, who have been buying every contract the tech funds have shorted, will panic and sell out on lower prices. Instead, the commercials will do what they always do Â? keep creating lower prices to induce more tech fund selling until the tech funds are done and then decide how much they are going to let prices rip to the upside as the technical funds turn to the buy side.

In the long term, silver looks different. It looks like a shunned asset at or below its primary cost of production, in very limited supply and in an era of exploding and almost unlimited world buying power. Oh yeah Â? it's also the only commodity not to have been manipulated by JPMorgan. Happy Thanksgiving to all.

Ted Butler

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Silver – $19.65

Gold – $1240

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