

November 30, 2011 – Current Events

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I've received a higher than usual number of subscriber questions concerning the big silver ETF, SLV, that I plan to address in a separate article shortly. I suppose many of those questions may be related to my increased scrutiny on the short position in shares of SLV and the apparent reluctance of the Trust's sponsor, BlackRock, to deal with the short selling issue. I'll try to deal with the matter comprehensively, but just as a preview I'm not a believer in throwing the baby out with the bathwater and I think the short position in SLV can be resolved. I will try to answer all your questions and concerns, but I ask your indulgence today in discussing some other matters of more pressing concern.

The first is a matter I hadn't planned on writing about as it just occurred this morning – the coordinated central bank effort to restore liquidity to the world financial system. This, coupled with China's surprising cut in its reserve requirement for banks, a reversal from policy over the past three years, suggests that the world's monetary authorities are very much concerned with the slowdown in economic activity and fragility in the world's financial system. The immediate reaction was a strong upward reaction in world stock and commodity markets, along with a downward move in the dollar.

While silver did participate in the immediate price bounce today, it's no secret that its price performance has been disappointing on balance since the highs earlier in the year. Of course, its performance up until that time was the best of just about any other investment asset, so we do need to put this into proper perspective. I'd like to discuss the reasons behind silver's recent underperformance and the prospects ahead, particularly as it relates to gold price performance and that of other commodities. In doing so, I must first repeat a mantra that I have made non-stop for more than two decades. Silver is a manipulated market, in fact, perhaps the most manipulated market in the world. The reason I repeat myself is because I believe that is the single most important concept one must grasp to truly understand silver.

I'll let you in on a secret. Until one looks at silver as being a completely manipulated market, little about it will make sense. Once you do look at silver as being highly manipulated in price, just about everything makes sense. I'm not suggesting you will be able to predict in advance price movements from day to day, as I don't believe anything can enable you to do that. But if you are interested in understanding the basic rhyme and rhythm of the silver market and how prices are likely to unfold over the long term, you will be lost if you don't grasp the manipulation; it's that important. As an example of someone who has come to appreciate that silver has been manipulated, here's a fine write-up on silver from the Sprott organization

<http://www.sprott.com/Docs/MarketsataGlance/2011/MAAG-11-11-Silver-Producers-A-Call-to-Action.pdf>

I understand that the natural reaction for most folks upon hearing that the silver market is manipulated is to avoid it like the plague, as who wants to deal in a crooked market? I also have been warned consistently over the years to lay off the manipulation argument as it will turn people off to investing in silver. Obviously, I have not heeded that advice, as manipulation has remained a key component in my work. Most emphatically, you should avoid buying markets that are manipulated higher as it will be hazardous to your financial health to buy an asset that has been pushed to an artificially high price. And most markets that have been manipulated throughout history have been of the upside variety. But this silver manipulation is of the rarest of manipulations, namely, of the downside variety. Because silver has been manipulated to the downside, by virtue of a documented concentrated short position, it is an asset that is automatically undervalued. Buying assets that are undervalued is supportive to one's financial condition.

After one grasps the manipulation in place in silver, there is little choice other than to buy it. Then, it becomes a matter of waiting for the manipulation to end and the price to be freed from all artificial price constraints. That the manipulation must end is a given, as all artificial price constraints are eventually broken. The only question is how and when. In silver, it comes down to will it be the free market that breaks the manipulation through physical shortage, or can the regulators be convinced to act sooner?

Getting back to current events, the recent underperformance of silver relative to gold and other commodities presents an added reason to consider silver as undervalued. While many investors view relative price weakness as a reason to avoid purchase, that reaction is incorrect for a market already manipulated to the downside, like silver. In fact, an objective analysis of the relative price moves this year in gold and silver should bring that out. Silver and gold have more in common than any other commodity, making them an ideal relative comparison. As I write this, gold is up \$325 (23%) year to date, while silver is up \$2 (6.5%). (Admittedly, silver has generally outperformed gold on different time spans). Since there are 3 billion ounces of gold bullion in the world (out of 5 billion oz total), the value of those bullion ounces have increased this year by almost \$1 trillion, to over \$5.2 trillion. The total value of the world's one billion ounces of silver bullion has increased by \$2 billion to \$33 billion. In other words, the increase alone in the value of the world's gold bullion this year is 30 times greater than the total value of all the world's silver bullion. Please think about that for a moment.

My point is that there is not much difference in the investment merits of gold and silver to warrant such a mismatch in the value of each. Both are precious metals valued by world investors in times of economic stress and loss of confidence. That the dollar value of gold is almost 175 times greater than the dollar value of silver is absurd. Let me be clear in what I am saying. I am not saying that gold is valued at absurd levels; I am saying that silver is being valued at absurdly low levels relative to gold. It is absurd that a ten dollar change in the gold price is equal to the total value of all the world's silver bullion. The true absurdity is that this mismatch in relative values is not yet recognized by the world's investors, even the big and sharp hedge fund operators. As and when it is recognized, those investors will rush to buy silver. In a very real sense, the higher gold prices climb, the better it is for silver. A higher gold price is the silver investor's best friend.

Two weeks ago, I wrote how the big silver manipulators, the CME Group and JPMorgan, may be "Too Big to Be Sued" (November 16, in the archives). A recent event involving the SEC would seem to confirm my premise. On Monday, a federal judge threw out a proposed \$285 million settlement between the SEC and Citigroup covering mortgage fraud. The judge, Jed S. Rakoff, could not determine if the agency's settlement with Citigroup was "fair, reasonable, adequate and in the public's interest," as required by law, because the agency had claimed, but had not proved, that Citigroup had committed fraud.

http://www.nytimes.com/2011/11/29/business/judge-rejects-sec-accord-with-citi.html?_r=1

The article went on to confirm my original contention when it presented the SEC's side of the issue. The agency contends that it must settle most of the cases it brings because it does not have the money or the staff to battle deep-pocketed Wall Street firms in court. Wall Street firms will rarely admit wrongdoing, the agency says, because that can be used against them in investor lawsuits.

In a nutshell, that's the whole issue with the CFTC and the CME and JPMorgan in the silver manipulation. The agency is no match for these financial giants. The silver crooks will never admit to wrongdoing in the silver market because doing so would open the floodgate to civil lawsuits. It's not that the CME and JPMorgan are not guilty as sin in perpetuating the ongoing silver manipulation; it's just that they will deny it to the end. Worse, the CFTC is even more strapped for resources than the SEC, so that the criminals at the CME and JPMorgan can be more arrogant and obnoxious in their manipulative behavior. There is a concerted effort under way to strip the agency of funds necessary to implement the new Dodd-Frank Act. My interpretation is that the CFTC will be hard-pressed to maintain its current number of employees and not staff up to previously approved levels. Maybe this manpower shortage was behind this week's obvious errors in the gold COT report. Here's the article from Bloomberg/Business Week <http://www.businessweek.com/news/2011-11-30/republicans-try-to-starve-wall-street-watchdog-william-d-cohan.html>

All of this highlights the realities of the silver manipulation. I have been able to describe and prove the manipulation beyond a reasonable doubt, even down to identifying the big concentrated short and in explaining the exchange's role in the crime in progress. I have succeeded (with your help) in having the CFTC initiate multiple silver investigations, including the current three-year investigation by the Enforcement Division, the longest-running investigation in agency history. We have now reached a stand-off.

I believe that the CFTC knows full-well that the silver market has been manipulated; the facts are so clear and compelling that it is impossible for them not to know. The data proving the silver manipulation comes from the agency itself. But the stakes are large and formidable. JPMorgan and the CME Group, by virtue of their army of lawyers, are above the law. The CFTC is no apparent match for these criminals. Even if the CFTC went to legal war against these silver manipulators, it is hard to imagine the agency prevailing, especially considering that JPMorgan and the CME will do everything in their power to avoid admitting guilt and providing restitution to silver investors harmed by their actions. The easiest avenue would seem to be to admit that the silver crooks cannot be beaten and we should just wait for the physical shortage to end the manipulation.

But that is not acceptable. Maybe we do have to wait for a physical shortage resolution, but we don't have to do so willingly. No one should be above the law because of an unlimited legal budget. The commodity laws against market manipulation that JPMorgan and the CME are violating were not written by you or me. Those laws were in existence before we were born and will, hopefully, be in place long after we are gone. The rule of law is what governs our society. We didn't swear an oath of office to uphold those laws either; but senior officials at the CFTC certainly did. It's not acceptable that crooks like JPMorgan and the CME can openly disregard the law.

If I didn't think that it was possible to alter the illegal behavior of JPMorgan and the CME, I wouldn't persist in trying. That doesn't mean we will prevail, but I believe the odds of success are better than most think. For one thing, there is a growing public groundswell of sentiment developing against giant financial institutions that dictate public policy. Importantly, this is evidenced in the actions of people like Judge Rakoff, who I consider a genuine American hero. In addition, I think the MF Global debacle has awoken more than a few observers to the shady business practices of both the CME and JPMorgan. Any objective reading of public sentiment will indicate a growing distrust of the financial behemoths and an increasing chorus that they be held accountable for preying on the public. I don't expect the public at large to ever fully grasp the details of the silver manipulation, but it is compatible with all the reasons the big banks are held in such low esteem.

Finally, I still feel that the officials at the CFTC, especially Chairman Gensler and Commissioner Chilton, want to do the right thing but have been stymied for various reasons. Maybe I'm all wet and these are really evil and corrupt people out to enrich themselves and harm the American people and our markets. In that case I suppose there is not much hope for positive change. But I feel otherwise and would encourage you to prod them to do the right thing. The right thing, of course, is for the agency to sue JPMorgan and the CME for manipulating the silver market. And not let them cop to any plea which does not involve an admission of guilt.

The silver market is still very favorably positioned for a big move upward, both from a COT market structure basis, on the fundamentals and on potential investment demand. Exactly when that move will be realized is unknowable, but that's always the case. Just know that every day more people are becoming aware of the silver manipulation (as evidenced above by Sprott) and fewer are accepting that silver is a market free from fraud, abuse and manipulation. I'm still convinced that widespread recognition of the silver manipulation will eventually doom its continued existence.

Ted Butler

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Silver – \$33

Gold – \$1750

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