

October 9, 2013 – Video Games/Great Reset

Video Games Vs the Real World

We live in an age of great technological advance; smart phones, tablets and computing devices have come to dominate modern life in unimaginable ways. While the net benefits of the advances enhance the quality of life, there are some drawbacks. One negative, in particular, has come to impact the silver (and gold) market. That negative is the mindless computer-based High Frequency Trading (HFT) on the COMEX that is the sole determinant of price on a daily basis.

More than in any other market, HFT dictates silver pricing with absolute control. This can be readily observed on a daily basis as no other market moves like silver. Silver changes in price by 2% or more on more occasions than any other market. Silver has the greatest percentage moves in price (mostly down) in the shortest periods of time of any market. No other market moves as abruptly and without apparent economic reason as silver.

In fact, it is the highly volatile nature of silver prices that indicates that something is different about silver. Because silver prices move on a daily basis without any obvious connection to changes in real supply or demand, this confirms an artificial quality to the pricing that supports the premise that the silver market is manipulated. After all, an artificial price is a manipulated price.

I've come to view the HFT-dominated pricing control on the COMEX as a form of video gaming by a select number of firms (led by JPMorgan) which possess the computer capability to wage a private financial battle against one another and other market participants where those on the outside are excluded (but affected). It is this daily and around the clock electronic battle on the COMEX which sets the price of silver. For instance, prices jumped by 60 cents (2.8%) on Monday, only to fall 60 cents early today on no news anyone could point to. This is the typical pattern, although it is preposterous and absurd. The price of a world commodity should not be set by private electronic gamesmanship.

There is no good reason for this video gaming pricing scam to be imposed on a world commodity. More than that, the artificial pricing is contrary to commodity law. Yes, I know that the regulators have turned their back on enforcing commodity law when it comes to silver and have allowed JPMorgan to control silver pricing. That is something that must be acknowledged. But it never was the case that the only hope for ending the price manipulation in silver was for the CFTC to do its job.

I don't regret petitioning and pestering the agency as there has been much learned in the process; but the termination of the silver manipulation always rested on the physical market. That's the thing about the HFT video gamers – they are dealing in a private electronic game that is completely apart from the physical world of silver. Yes, the HFT price scammers dictate prices to everyone in the real world of silver – miners, exporting countries, investors – but the artificial pricing has grown so extreme and has come to distort the law of supply and demand so much that blowback from the real world of silver has emerged.

Because it is obvious that the HFT video gamers have come to absolutely control silver prices on a daily basis, it follows that their control has had to influence prices on a longer term basis as well. Daily price control must extend to longer term price control. There's little doubt in my mind that prices of silver below the cost of production for many silver miners is the cumulative result of the daily HFT video games on the COMEX. How do you manipulate silver prices? One day at a time. As I'll explain in a moment, the daily artificial pricing has resulted in the price of silver being reset.

But there is a limit to artificial pricing, maybe not on a daily basis but certainly longer term. Artificial and manipulated prices must impact real supply and demand at some point and the signs are emerging that artificially depressed silver prices are having such an impact. What signs? For starters, the disparity witnessed all year between investor behavior in holding silver tightly when compared to investors holding gold. Silver investment holdings are up; gold holdings are down substantially. Sales of Silver Eagles are proportionately much stronger than sales of Gold Eagles. It's almost as if silver prices haven't fallen as much as gold prices this year, but in fact silver prices have been much weaker than gold prices. Instead, I believe silver prices have dropped so sharply that investment demand has been awakened.

A new report from Reuters suggests that the low price of silver, along with recent government actions have resulted in stronger silver demand in India, both on an absolute basis and relative to gold demand. India has been the biggest gold buyer for years, although China has emerged to be the largest gold buying country currently. India was an important gold buyer through the first half of 2013, but a series of government steps to restrict gold imports has resulted in those imports falling sharply in the past few months. The steps were aimed at improving India's balance of trade by restricting the flow of domestic funds into imported metal and included a 10% import tax. In 2012, more than \$50 billion was spent by Indians on imported gold.
<http://www.reuters.com/article/2013/10/08/us-india-silver-idUSBRE99711G20131008>

The government measures, as well as currency devaluation and a rise in the gold price since the end of the first half, succeeded in reducing gold imports into India by more than 80% in August and September. Even though silver imports faced the exact same restrictions as in gold and the domestic price of silver rose as much (or more) as the price of gold, the outcome was markedly different. Silver imports surged. It appears that India could be the biggest buyer in silver this year, importing a projected 200 million oz, absorbing more than 25% of global mine production (20% of total supply, including recycling). So why are the people of India shunning gold and embracing silver? In a word, value.

There's no doubt that the people of India revere and treasure gold like few others and they have done so for centuries. There is nothing to suggest that has changed. The only thing that has changed is that the domestic price of gold has risen too high too quickly as a result of various factors that the price is now too expensive for the collective buyers in India. No other explanation seems possible.

The remarkable thing is that silver has increased in price by the same percentage or more in India as has gold for the same factors and should, therefore, be considered too expensive for purchase as well. Yet that is not the reaction in India, where demand for silver is surging overall and especially relative to gold. The only plausible explanation is that there is more value in silver than gold as perceived by the domestic buyers in India.

Since not a week goes by that I don't suggest switching gold into silver, how can I not state that I think the metal buyers in India are unusually wise to choose silver over gold? While I do have a number of subscribers from that country, I'm not suggesting I have had any influence on the strong silver demand. Instead, I believe the strong silver buying in India has nothing to do with any conscious awareness of the COMEX silver manipulation by JPMorgan and the HFT video gamers or a prospective silver shortage or industrial user panic.

The silver buying in India has everything to do with elemental value. This is a culture and people that love gold. But when the price of gold rises too much, an ingrained sense of relative value has resulted in record silver demand. I think it's all rooted in my relative dollar comparisons between gold and silver. The total value of the world's gold is in the trillions of dollars; the total value of silver bullion is in the low tens of billions of dollars. I believe the "weight" of all the dollars of gold in the world and the relative lightness of the dollars in silver is what is instinctively and subconsciously driving the people of India to buy silver. This key point was mentioned in the article; where gold imports into India in 2012 totaled \$52 billion, while silver imports were less than \$2 billion. That creates the potential for much greater silver purchases.

The force most likely to moderate the relative buying surge in silver in India is a silver price rise relative to gold. As long as gold appears more expensive than silver it is reasonable to expect silver demand to remain strong. As and when silver prices outperform gold then it should be expected for silver demand in India to moderate. The HFT video gamers on the COMEX will distort prices until outside physical forces, as in India, pull the damn plug on the crooked pricing machine.

The Great Silver Reset

For most observers, it is extremely difficult to measure historical changes as they occur. Compounding this difficulty is that the world rarely changes in a day or week; most things historically significant unfold over years, if not decades. This is especially true in economic and investment matters; the flow of time and price and events distorts perspective, making it harder to uncover genuine value.

Further complicating the attempt to see things in the proper perspective is the fact that people often behave collectively differently than they do individually. When it comes to investments, a market or asset that moves higher over a long enough period of time always attracts additional buying, most often to the point of extreme overvaluation and eventual collapse. Conversely, an asset that remains in a declining or stagnant price structure tends to remain at a low valuation and not attract additional buying until that valuation becomes so extreme as to begin anew the inevitable up cycle. It is primarily this collective human behavior that is responsible for prices moving up or down in cycles.

The greatest challenge and opportunity for individual investors comes from buying when an asset is out of favor collectively (priced low) and selling when the collective feeling is positive and the asset is priced high. Going against the crowd is generally the best way to achieve investment success, although it is difficult to do emotionally. While it is fairly easy to determine collective investment sentiment by observing the direction of prices over the previous year or two, how can we determine if an asset's price is too low or too high? For that, we must rely on objective measurements.

I believe silver represents the greatest investment opportunity around today. Certainly, collective sentiment is scraping bottom as a result of the two and a half year price pounding from the peak in April 2011. It would be impossible for the collective investment sentiment of anything not to be at a negative extreme following a 60% grinding price decline lasting years. Based upon the extent of the price decline and how long it has lasted, silver certainly meets the criteria for an investment asset being in the doghouse in terms of collective sentiment. Remember, when it comes to collective investment sentiment, being in the doghouse is a good thing in terms of buying.

When prices decline and stagnate over an extended period, collective sentiment almost demands constant reminders why prices are down, even if those reminders are not based upon factual data. I believe that is what has occurred in silver, namely, the collective sentiment has come to accept and rationalize the price as being what it should be. But collective sentiment is always wrong in the long run and going against that sentiment can bring spectacular results. I believe that to be the case in silver.

In certain circumstances, someone can decide for him or herself with no outside help whether an asset is undervalued. If you happen to be in the market and can buy the perfect home or automobile 50% or 60% below the selling prices of past years, you wouldn't need much prodding to take advantage of the markdowns because they would be self-apparent. And that's how I look at silver — the perfect investment because the price has been marked down so much. And that's in addition to all the other positives in silver. Despite the current malaise in collective sentiment, the price reset in silver has created an opportunity rarely witnessed because the price decline is at odds with the facts.

What facts? Mainly that not much has changed in silver aside from the price. The world produces and consumes industrially about the same amount of silver as it did two or so years ago, meaning the amount left over for investment hasn't changed so much. It is how aggressively that "left over" amount of silver is purchased by investors that drive the price, same as always. Admittedly, declining prices discourage investment demand for a time and that self-reinforcing phenomenon has been in place for quite some time, suggesting a change at some point. In other words, the real amount of silver available for investment hasn't changed anywhere near as much as the price decline might indicate. Since collective sentiment and price must change at some point when they reach extremes, they must change in silver considering the negative extremes.

One measure of the extreme price decline in silver over the past two years is that it resulted in the rarest of circumstances for a precious metal - a price that went below the cost of production for many of the world's primary silver miners. A price below the cost of production must result in lower production at some point and, at the same time, should increase consumption. This would result in less silver being made available for investment demand, setting the stage for a price surge. So either the price of silver will rise above the cost of primary production heading off a real production squeeze or the price will rise afterward as a result of diminished production. I couldn't say that two or three years ago, but I can today.

Another fact is that silver didn't decline as a result of massive selling by those holding real silver, as has been the case in gold this year. Not only has there been no net selling in retail forms of silver, like Silver Eagles and small bars, sales of Silver Eagles have remained strong for the past two and a half years. Further, there has been no net selling by investors holding silver ETFs, like SLV. Most certainly, there has been massive selling of paper silver contracts on the COMEX and that is the cause of the price decline. This paper selling is at the heart of the great silver reset. Nothing changed much in the real world of silver, including production, consumption or investor holdings; the only thing that changed was the price, due to an historic paper market price manipulation on the COMEX.

As a holder of silver, it has been no fun watching the price sink. That's particularly true since I know why the price has declined and that the commodities regulators have ignored the manipulation and have not upheld the law. But because all the facts in silver have remained intact except the collective sentiment and the price, the great price reset to the downside has dramatically strengthened the original investment promise of silver. I know it may not feel that way or maybe that my words may sound wishful, so let me see if I can explain it further.

If a stock maintained its earnings and dividends, or a bond paid its interest and remained safe, or a parcel of commercial real estate generated income as before and each was marked down 50% and suddenly available for purchase, that would double the investment appeal. In time and all things being equal, investors would react and prices would adjust upward. That's basically the story in silver; the price didn't fall because of any obvious changes in the real world of silver, it fell because of very obvious paper games on the COMEX.

That's an incredible finding – no evidence of big changes in world silver production, consumption or investment holdings and compelling proof of paper market manipulation as accounting for the big price decline. That paper market manipulation, because it has caused the price of silver to go so low, now promises to lower actual production and increase consumption. That's the counter argument to those who worry about the paper market manipulation lasting indefinitely; it can't because of its effect on the real world of production and consumption.

I've written in the past about the silver story being so good from so many different angles that my imagination wasn't capable of inventing all the reasons; I couldn't make them up if I tried. Now we have a new one – a price so low that it threatens world mine production and promises to disrupt real supply and demand unless and until prices move sharply higher. That's the beauty of the silver price reset; it actually accelerates the silver shortage timetable and lifts ultimate upside price targets. The only remaining requirement for turning this unique set up into an investment homerun is to buy before prices adjust upwards. The reset is of no good purpose unless you take advantage of it.

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Silver – \$21.90

Gold – \$1305

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