# April 11, 2012 – Unanswered Questions

## Unanswered Questions

I thought it might be useful to try to take a high-altitude picture of where we stand in silver on its long-term price journey. For an item with both a 5000 year history and currently in the midst of a computer driven trading frenzy measured in milliseconds, that's no easy task. Balance is needed to properly judge where we are on the journey. The idea, as always, is to buy and hold and not sell as long as the actual conditions indicate much higher prices. And to do it within the practical limits of our individual investment lives.

Silver has come a very long way and my sense is that it still has a long way to go in terms of the price. But in terms of time, I sense that it won't take as long for the price gains I envision to occur as the time it took up until this point.  It took the better part of ten years for silver to climb from the low at $4 to the high of almost $50 last year. In reality, it took closer to 30 years for the move to unfold, but I'll use the ten year window because that's around the time I started writing on the investment merits of silver on the Internet. While I still propose that a long term approach is the best way to invest in silver, my sense is that it is not going to take as much time for the coming dramatic price gains to unfold as it did over the past decade.

I realize that we are currently in a period of doldrums in the price and this has blunted investment demand, the silver price driver with the most kick. Prices are down sharply from the peaks of a year ago and there is a self-fulfilling nature in all investment assets where lower prices discourage new investment. More than ever, the short-term control of High Frequency Trading (HFT) is exerting greater daily pressure to the price as real volume dwindles. I've noticed a clear pattern where most days we start out under price pressure. This makes it easier for the COMEX commercials to contain the price. No one can guarantee that the COMEX commercials can't rig another sharp sell-off. It's enough to sap the resolve of even the most ardent bull.

But I would remind you that these conditions have been a regular feature of the silver market over the past ten years (excepting the presence of HFT). While we have climbed sharply over the past ten years, that extraordinary price rise witnessed its share of sharp takedowns and prolonged periods of price stagnation. For example, the price high at $8 in 2004 wasn't exceeded for almost two years, as was the price high of $15 in 2006 which wasn't exceeded for almost as long. It took more than two years for silver to exceed the price highs of March 2008 of $21 (when JPMorgan took over Bear Stearns). Yet anyone who bought at the former highs and held on was rewarded, as will those who bought at last year's highs. (Going back even further, the decade or more that silver traded between $4 and $5 was the biggest price doldrums of all; along with being a great time to accumulate). My point is that during the last three silver price doldrums, the gloom and negative talk was almost thick enough to cut with a knife, almost the same as now. Yet history shows us that the very best time to buy was during past price doldrums as was it also the very worst time to sell.

Likewise, I think that history will show that will be true for purchases made in the current doldrums. But I say this not because of previous price patterns which are quite clear, but for the reasons underlying the silver market. The current investment lull is just that, a temporary phenomenon. I can't tell you precisely when silver investment demand will ignite, but I can tell you it will likely come as prices begin to surge for whatever reason. I can also tell you that the silver investment infrastructure is more firmly in place than ever before, with more international silver ETFs available and other ways to buy silver than were in place during past price doldrums. I can tell you that the real silver story, while still unknown to most of the investment community, is more widely known than in past doldrums.

The supply/demand fundamentals in silver are nearly as good as they ever were, as the world economy continues to consume growing amounts of all industrial resources as world population surges. The barriers to limitless resource production are great. Certainly there is more potential investment demand for physical silver available than in the past periods of silver price doldrums. Throw in a favorable market structure by COT measurements and it's more a matter of when we will go up in silver and by how much, not if we will go up. But of all the factors that promise to lift us out of the current price doldrums the most important to me is the coming resolution of the silver manipulation. Nothing will cause us to break out faster than developments on the manipulation/regulation front. And if the regulators don't move against the manipulators, the coming physical shortage will doom it.

The reason I am encouraged on the regulatory front is because the issue has become more widely known and more clearly defined than ever before. I think it comes down to a series of questions which are basically unanswerable in free market terms (which is why I've asked them). In fact, I don't know how anyone could answer these questions except to conclude manipulation. I'm not going to list all the questions I have, but limit it to just three in order to keep it simple.

The first question is one I asked back in August 2008 when the unusual concentration on the short side of COMEX silver by one or two US banks first came to my attention. Looking back at the available data, at that time JPMorgan was short more than 30% of the entire COMEX net open interest and 25% of world annual production. I asked how such levels of concentration could not be manipulative to the price. The CFTC couldn't answer and instead began a new investigation in silver, even though they ended their second major silver investigation in four years just months earlier. That investigation, now the longest running in US Government history, continues because the question can't be answered without concluding manipulation. This is a conclusion that the CFTC is, obviously, unwilling to reach. So the question and the investigation remain open.

The second question is how a world commodity can plunge 35% within days with no noticeable change in real supply and demand in a free market? Silver did this not once, but twice in 2011 and the obvious cause was unusual trading in COMEX futures trading. This means the COMEX set the price with the obvious conclusion that this represents manipulation. What make this question disturbing is that such a decline would never be allowed in any other commodity and if it did occur would be publicly addressed with much fan fare. Not so in silver. Worse, is that the two 35% price smashes occurred while an active silver investigation was ongoing. The Keystone Kops couldn't perform more ineptly than has the CFTC in this instance. I think, sooner rather than later, this question must be addressed, although I have yet to run across any free-market explanation.

The last question is how is it possible that the COMEX commercials in gold and silver futures are always the big net buyers on every big sell-off and that not be evidence of collusion and market control? I've been studying the Commitment of Trader Reports (COT) for more than 30 years and I can't come up with an alternative and plausible free market explanation, other than this is clear evidence of a continuing manipulation. Not once have the commercials sold on a net basis in any big price decline; never panicked as a group, never guessed wrong on a sell-off. How is that possible in free market terms? I think if anyone could respond to this question they would have done so by now, but I'm still eager for an answer.

I don't think these three questions can be answered without concluding that the price of silver (and gold) has been manipulated. Certainly the questions are based upon government data, so the facts are verifiable. These are important questions concerning the most serious matters of commodity law. These are the same questions that you have asked the Commission and your elected officials. You have not received clear answers, even where you have received responses. That's good, because there are no legitimate answers and good reason to keep asking.

The reason I am encouraged that there may be some development on the regulatory front is based upon these questions (and others). I have been trying to end this manipulation for more than 25 years, but I must admit that I've never been able to reduce the argument to a few basic questions. And these are questions that are reasonable and ought to be answered by the Commission because they are closely aligned with the agency's core mission. Considering how long the Commission has taken to answer so far, that suggests to me that any answers will be coming sooner, rather than later.

The current price doldrums are not an accident, as the resultant cooled-off investment demand and leveraged long liquidation gives the manipulators some breathing room. But this is a stalling tactic, not a permanent solution, similar to the stalling tactics of the CFTC. That means it could end suddenly and that's in line with my expectations. The big money in silver for the investor has been made on a long term basis by holding, maybe trimming on extreme new price highs and accumulating during the doldrums. We're in the holding and accumulating cycle now, as far as I see it; the trimming time is down the road.

The past nature of silver price doldrums indicates that the up price moves come in spurts when least expected. Silver may have climbed 7 to 12 fold higher over ten years, but the actual time in which prices moved higher was only a fraction of that time. Because the price moves up are condensed in terms of time lies behind my expectation that future price gains will also come unexpectedly and in spurts. The only sure way to capture those spurts is to be invested beforehand and not try to time it. Simple questions and a simple solution.

Ted Butler

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Silver – $31.50

Gold – $1658

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