

Weekly Review

o ns = "urn:schemas-microsoft-com:office:office" />

Another week, another record for both silver and gold. Silver added \$2 for the week (on top of last week's \$3 gain), while gold tacked on \$12. Since year end, silver is up more than 38%, while gold is up almost 5%. As a result of silver's continued outperformance relative to gold, the gold/silver ratio tightened in to another multi-decade extreme of under 35 to 1. Since last August (the start of this up leg), money invested in silver has returned almost 6 times (600%) more than what money invested in gold has returned. It's hard to believe, but silver is up almost 140% over the past 8 months compared to gold's 24% gain.

Although I have been repetitive about the merits of converting gold to silver, I admit that I stand in awe of silver's recent outperformance. As crazy as it may sound, I don't think I was repetitive and vocal enough, given what has transpired. But I don't know, if I could beam myself back to last summer, how I could have pounded the table harder about switching from gold to silver. Also crazy is that the facts still suggest to me that such a switch should be made. Of course, the tremendous gains to date will remain with those who previously made the switch.

Against the backdrop of a surging silver price, the calls for a sharp sell-off

continue unabated. As I previously reported, almost all those calling for a sharp correction seem to share a commonality, namely, a disbelief in the silver manipulation. I think this is a crucial observation. Let me stipulate first that there can be a correction in the price of silver regardless of whether it has been manipulated or not. But nothing can be more important to the future direction of silver prices than in understanding whether this market has been manipulated. To those who don't believe silver has been manipulated in price, it's hard to see how the price won't collapse. Those who believe that silver has been manipulated (like me) know that the price will explode when the manipulation is terminated. That's a clear line of demarcation.

Manipulation is the most serious market crime possible. That's because an artificial price (high or low) alters the law of supply and demand, the cornerstone of the free market system. It affects everyone in the world. If silver has been manipulated for as long (25 years) as I allege, that means the artificially depressed price has discouraged production and encouraged consumption over that two and half decades. A higher free market silver price would have resulted in more production and less consumption and prevented a shortage. But we didn't have a free market silver price; we had a depressed price due to concentrated short selling on the COMEX. As a result of the depressed price and less production and more consumption, we are now staring down the gun barrel of a silver shortage.

The ultimate proof of a downward manipulation in the price of anything is not an official government finding, but a shortage. You can have a commodity shortage due to other factors, of course, like a sudden supply disruption.

However, the silver shortage that is starting to appear is not due to a sudden supply disruption, but rather as a result of the effects of the long-term manipulation on the supply and demand of silver. Because this manipulation has been in force for so long, it is reasonable to expect that its termination will have a profound impact on price. In spite of the impressive price gains to date, I do not believe we have witnessed that profound price impact yet.

The signs of physical tightness (shortage) abound in silver. This week, the movements of physical silver out of the COMEX warehouses were notable, but it was movements of metal out from and then in to the big silver ETF, SLV, that captured attention. I had mentioned in Wednesday's report the nearly one million ounce withdrawal when there should have been a big inflow as indicating physical tightness. But that was overshadowed by the next day's almost 8 million ounce outflow, one of the largest one day withdrawals ever. This was immediately followed by more than a three million ounce inflow the past two days. These physical movements are stunning and point towards tightness and pending shortage. Add to this the high trading volume in SLV shares the past few days on the sharp price rally and it's easy to conclude that much new silver is owed to the Trust. Physical silver supply is tight and getting tighter.

On top of the impressive price action and physical market developments this week, I didn't expect a bullish surprise in the new Commitment of Traders Report (COT), but we got one anyway. The latest COT indicated a fairly sharp reduction of around 5,000 contracts in the total net commercial short positions of both COMEX silver and gold futures. The reason I was surprised is that the total (gross) open interest was higher over the reporting week, suggesting a build in the net positions. But we witnessed sharp reductions in the net commercial short position which was camouflaged by an increase in spread positions. That's the beauty of the COT; it gives you the complete breakdown that you just can't divine from the daily statistics.

Silver was the real shocker to me. The price during the reporting week finished about 80 cents higher, but had been up as much \$2.5 in late Sunday/early Monday trading before selling off sharply. Obviously, there was significant technical fund selling/commercial buying on that sell-off which went undetected until the COT was released yesterday. The commercials pretty much divvied up the speculative selling, with the big 4 (JPMorgan) taking 2200 contracts and the 5 thru 8 buying 1200 and the raptors taking 1700 contracts. Classic wolf-pack behavior of sharing the prey. As a result, the commercial net short position in silver is now at levels last seen on February 8, when silver traded for around \$30. Similarly, the speculators (tech funds, small traders and other large traders) hold their smallest net long positions since then.

One important take-away in the level of silver prices being much higher than they were in early February, is that it shows the commercials are buying silver on the way up (albeit still on sell-offs). Specifically, JPMorgan appears to be buying and covering shorts. It was only six or seven weeks ago that they added the 6,000 contracts short that I tried to make a fuss about. That was at around the \$33 to \$34 level. Now they appear to be buying back at \$40+ (not a very good trade for a master of the universe). This raises the hint that the short-covering may have just begun. If so, that bodes very well for the future price prospects for silver.

In addition, the sharp reduction in the net long position of the technical funds proves that it has not been hot-money speculative buying that has driven the price higher, as so much current commentary claims. The most authoritative and definitive measurement of speculative activity is the COT. The COT is clearly indicating that speculative buying on the COMEX is not responsible for higher silver prices since early February. The latest COT indicates that speculators were selling and commercials were buying. We'll monitor future COTs to determine if that pattern remains in force. In the meantime, those who claim the price of silver is being driven by speculative buying are, obviously, not considering the most definitive source for such data.

I've used the line often that I can't believe the price of silver is at current levels (now more than ten times from the lows), yet the set-up never looked better.

Looking at this latest COT, I still feel that way. Importantly, if the tech funds are selling on the way up, that reduces the odds and motivation for a big price smash, because that leaves less potential selling on the way down. This selling by the tech funds suggests that the old manipulative pattern of the commercials snookering the funds into selling on lower prices may have been broken. A physical shortage, plus the COMEX manipulation scam broken □ what silver investor wouldn't be excited by those possibilities?

There was one new development this week that I would like to comment on; the news of threatened nationalization of silver mines in Bolivia. I doubt there would ever be outright nationalization, but I think it reasonable that investors in silver mining companies which hold properties in different countries factor in increased taxes and royalties as prices rise. Although I have been asked many times by subscribers and prospective subscribers for advice on silver mining investments, I have been reluctant to do so. It's not that I rule such investments out completely; it's more that there may be too many variables for me to be confident that I won't hurt anyone (A man has to know his limitations or some such thing).

The variables include, in addition to country risk, management performance, company specific financial risk, environmental considerations, etc. I know there can be performance leverage added to silver price performance by investing in mining shares, but leverage works both ways. If I ever did give a

recommendation for a silver mining security, I would feel an obligation to stay on top of that security. That's something I'm not prepared to do, as I feel it would detract from the time I spend studying silver. Besides, there's plenty of bang in silver itself and the metal has done quite well against most silver mining securities.

But as far as the threat of increased taxes in certain mining jurisdictions, I think that threat is real. It has to do with common sense and, once again, standing in the other guy's shoes. For many years, thanks to the manipulation, the price of silver was depressed. There wasn't much profit to the miners and, therefore, that diminished the threat of excessive taxation. After all, you can't get blood out of a stone. Now that silver is rising strongly in price, the profits for the miners will also rise strongly. If you were ruling a country with a large poor population and suddenly one of your export products boomed in price, would you sit by and let your country's wealth be sent to foreign owners unimpeded? Forget what's legal or contractual □ would you not try to divert that new-found wealth to your own people?

This is not an indictment on mining shares, just something to think about. Of course, those who own the metal will not be negatively impacted by any moves to increased taxation on mining. Instead, this would tend to enhance the value of the metal. Long time readers know this is something I have written about previously.

We must all guard against getting caught up in a silver fever just because the price performance has been so spectacular. With higher prices come higher volatility and the chance of downdrafts. But it is more important to try to understand the true forces that are moving the price. All the facts point toward silver not being in a speculative bubble and being in a tight physical structure with a giant short position. Until there is compelling evidence to the contrary, the likely path of silver prices is higher. Much higher.

Ted Butler

April 16, 2011

Silver - \$42.90

Gold - \$1486