

April 22, 2010 - The Value to Society

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In my mind, the news in silver had seen a peak in interest with the recent public meeting by the CFTC on position limits in precious metals. That meeting, coupled with the current battle over financial reform and derivatives trading, was thought by me to provide enough attention to the silver manipulation to move it quickly towards a resolution. Then, out of the blue, the Securities and Exchange Commission charged Goldman Sachs with fraud in its dealings with a mortgage derivative transaction.

Most importantly, the financial reform being debated in the Senate has suddenly advanced much further and more rapidly than I possibly could have imagined, perhaps influenced by the Goldman news. I am happy to report that the chairman of the CFTC, Gary Gensler, appears to be playing a leading and very constructive role in terms of derivatives reform and the big banks. To be sure, I grow impatient with the pace of regulatory initiative in the silver manipulation, but at the same time I am highly encouraged with everything else the chairman seems to be doing.

The parallels and lessons in the fraud charges leveled against Goldman Sachs by the SEC and the activities of JPMorgan in the silver market are striking in a

number of ways. I'm going to speak of only way today - giant financial institutions gaming the market with no legitimate economic purpose, save personal profit. That these financial institutions have government backing that has and could require taxpayer assistance makes their personal profit motive all the more repugnant. I have nothing against the quest for profit. I have everything against that quest when it is undertaken by financial institutions backed by the government and is detrimental to society.

It's amazing how out of line things have become. Because the events have developed over time, we often lose the proper perspective with which to judge them. How did we get to the point where much of our markets have developed into pure gambling? Guilt or innocence aside, the charges against Goldman Sachs depict a transaction that was a pure bet, with no economic significance or justification to the economy at large. There was nothing of value to society. That's the point I am trying to make. The time has come to crack down on mega bets that involve no economic justification, especially when those bets are made by government-backed financial institutions. We need to exercise common sense in rooting out these non-economic games.

No clearer example of the non-economic gambles that need to be terminated exists than in the silver market. In COMEX silver, there exists the preposterous situation of a major US bank, JPMorgan, holding a concentrated short position of 150 million ounces. JPMorgan has held this short position since it acquired Bear

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Stearns, more than two years ago. It serves no useful value to society, except to artificially depress the price of silver. In many ways, this silver short position is much worse than whatever Goldman Sachs is alleged to have done. For one thing, Goldman wasn't alleged to have manipulated the market. By its very existence, JPMorgan's silver short position, due to its concentrated nature, can't help but manipulate the price of silver. The proof of the manipulation lies in the fact that it can't be closed out without greatly impacting the silver price. Such a concentrated position exists in no other major market. Further proof lies in the fact that neither the CFTC, nor JPMorgan, can address the issue directly, in spite of a year and a half of formal investigation.

If we are to have true financial regulatory reform in derivatives, as President Obama eloquently calls for, we must apply common sense and honest debate to the concentrated short position in COMEX silver. The time for stone-walling and pretending no problem exists is long past. I am hopeful that the exciting and dynamic reform developments occurring daily will terminate the silver manipulation soon. Your comments to the CFTC aid in this process.

Here's another recent interview for your consideration, with Jeff Nielson from Bullion Bulls Canada, complete with public comments (pro and con). The interview touches on the recent CFTC public hearing □

http://www.bullionbullscanada.com/index.php?option=com_content&view=article

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