

Weekly Review<?xml:namespace prefix = o  
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It was another week for the record books for both gold and silver. This week, gold took the lead, exploding for more than \$58 (almost 4%) to close at a decisive new all-time high. Silver moved higher by \$1.30 (almost 3%) to finish the week at new 31 year highs. Thanks to a Friday price surge in gold and somewhat of a swoon in silver, the gold/silver ration widened by a tiny amount, but still finished below 33 to 1, a multi-decade extreme favoring silver.

There was some buzz that Friday's price action may have signaled an important reversal in the gold/silver ratio, with gold about to outperform silver for the first time in eight months, even though the weekly change was hardly noticeable. After moving from the 68 to 1 ratio seen in August on almost a straight line basis, no one should be surprised if there is some fluctuation favoring gold. Silver's price move has been nothing short of meteoric. There was a time at the turn of the year, for instance, when the gold/silver ratio widened temporarily from 45 to 1, out to 50 to 1, before it plunged to current levels. Short term movements in anything involving silver are hard to pinpoint in advance. But the real facts suggest to me that silver still has a lot of outperformance left compared to gold and that the ratio will move lower in time. As always, my advice is to trade sell gold in order to buy silver on a cash basis; it is not my intent to encourage anyone trade the ratio on a leveraged basis.

Likewise, I continue to be awestruck about the amount of bearishness or calls for a sharp decline in the price of silver. Where I had been calculating that the bearish articles and commentary were ten times greater than the bullish calls, I've had to revise my informal count to 20 to 1, or even 50 to 1. Just like the buzz on a gold/silver ratio reversal, this is purely a function of the price explosion in silver. On the one hand, I suppose this is understandable given how far silver has climbed in price. But on the other hand, I have to confess to you how wrong I feel about a strongly held previous conviction that I don't think I ever revealed before.

That previous privately-held conviction of mine was that I always thought that when silver prices reached these current levels, amid the glaring facts that are evident, that the majority of observers would openly see and understand the factors that had driven silver higher, namely, all the factors that I had publicly written about for more than a decade. I was always convinced that the move we are all witnessing would cause universal acceptance that silver had been manipulated in price for decades and that the manipulation was unraveling. Instead, nothing could be further from my previous expectations. This is probably one of the biggest surprises I have ever experienced.

While I think I have helped educate many to what I think is the real story in

silver, I freely admit that this has also been a tremendous and unexpected learning experience for me as well. What I think I have learned is the power of preconceived thought, not just in silver but in everything. Admittedly, silver is an extremely narrow subject. That makes it easier to study for me. Through that study of narrowly-focused subject, I feel I have learned a lot about human nature in general. What I have learned is that preconceived notions are rarely overturned, no matter how contrary the actual evidence. I have come to learn that those who never believed that the silver market was manipulated will continue to believe that no silver manipulation exists no matter what proof is presented. Even if Mother Theresa descended from the heavens and, in a personal visitation, presented the evidence of a silver manipulation, the deniers would still deny. To me, the actual evidence of manipulation is even more compelling than any such heavenly visit.

Nowhere is the actual evidence more ignored than in the bearish calls for the end to the silver price run. Yes, silver has run up tremendously and it is possible that a correction could take place. That is something I have acknowledged repeatedly. But it is amazing to me to witness the reasons being given for the run up and expected decline. I believe it is related to the power of preconceived thinking. Because silver's price trajectory has been similar to other comparable historic price trajectories (including silver itself in 1980), the reasons being given for the current silver move are just being borrowed from old price blow-offs. In other words, almost all of the commentaries calling for a sharp silver

sell-off are based upon what happened previously and offer no actual insight into what's happening now. A case in point is the declaration that speculative buying is fueling the silver blow-off. Nothing could be further from the truth when you study the actual available data.

To demonstrate that, let me reverse the usual order of this weekly review and discuss the latest shocking Commitment of Traders Report (COT) and save an equally important discussion of the big silver ETF, SLV, until the conclusion of this piece. What made the COT shocking was not the direction of change in this week's report, but the extent of that change. I had expected that the speculators would have sold and the commercials to have bought silver (and gold) contracts on rising prices, as this has been the case for the past few weeks. But not to the extent that they did. In silver, the speculators sold and the commercials bought over 10,000 contracts net, an absolutely stunning quantity. In gold, the commercials bought 17,500 contracts, also an impressive amount – just not as extreme as in silver given each market's relative size.

The extreme change in the silver COT occurred during a reporting week in which prices jumped at times more than \$5. It was notable that the big 4 (read JPMorgan) bought back more than 4000 contracts (the raptors bought more than 4500 contracts). As a result of the massive buyback of short positions, the big 8 now hold their lowest short position since early 2009, when silver traded in the \$11 range. The big 4 now hold their lowest net short position since 2006,

when silver also traded in the \$11 range. My hunch is that there was additional significant commercial buying since Tuesday's cut-off. I predict that when next week's Bank Participation Report is released it will show that JPMorgan will hold its lowest net silver short position since it acquired Bear Stearns three years ago.

Please allow me to make two points, one to you and another to you and the regulators (who I send everything I write, as well as I do to JPMorgan and the CME Group). The incontrovertible data in the COTs shows that the last \$10 to \$12 rise in silver prices (to over \$49) has come amid speculator selling and commercial buying. This puts a lie to all the stories claiming silver is in a bubble or a blow-off due to hot-money speculative buying. While I can't rule out a correction in price, it is certainly not pre-ordained. The actual evidence suggests further gains ahead.

To the regulators, I would respectfully suggest that you analyze your own data. That data clearly indicates that a manipulation has occurred in COMEX silver. When the big concentrated shorts establish and hold a large position it depresses the price. When those same concentrated shorts move to buy back their shorts we have surged to the highest prices in 31 years. This cannot possibly be a coincidence; this is simply cause and effect. Please put these COMEX crooks out of business, if not in jail.

There is no doubt that the fuel for the silver rocket ride has come from commercial buying and short covering. That we have expended a great deal of that rocket fuel on the journey so far is also of no doubt. Therefore, a very legitimate question must be asked □ do we have any (or much) commercial buying/short covering rocket fuel left to power the silver price odyssey? My sense is we still have more fuel to burn, but I do acknowledge that we have less than we did formerly. Then again, we have travelled a great distance already. I'll be monitoring this factor (one of my three critical factors) closely and will share my thoughts and findings as they develop. Let me share one additional thought on this commercial short covering before getting into what I feel is a very important discussion on the SLV.

Blow-offs in price are important and rare events. This silver price blow-off is very unique in a special way. Most previous price blow-offs have resulted amid speculative buying, not commercial buying and short covering. After speculative buying reaches its peak, the speculative buyers have nothing left to do but sell. This causes prices to fall as fast (or faster) as they previously climbed. This was certainly evident in silver in 1980. This current set-up is different. The speculators are clearly selling on the way up. Therefore they will have much less to sell as and if silver prices decline. Because the buyers, the commercials who are largely buying back and covering shorts, are driving silver prices higher, when their buying stops it does not follow that prices will necessarily

collapse due to them selling.

As I have indicated previously, a short sale is an open transaction that must be closed at some point. The commercials who are buying back shorts now are closing their open short transactions; they are not opening new buy transactions for the most part. Therefore, when the commercials are done buying back short positions and they do use up all the rocket fuel that has propelled us higher in the price of silver, it does not follow that they will then initiate new short transactions. In fact, I don't think these big silver commercials, like JPMorgan, will ever go short silver again. Why would they? The last time they increased their silver shorts (at the end of February to the tune of an additional 6,000 contracts) they got absolutely killed. What they sold short then at \$33, they just bought back close to \$49. What master of the universe is going to repeat that stupid trade? The bottom line is that there should be no new shorting when the commercials are done buying back their shorts and the risk of a price collapse is greatly diminished. When these commercials do get off the short side of silver, they won't be looking to get short again. Heck, they'll be lucky if they're not in jail.

Now to the issue of the SLV. Since I didn't report on it yet, conditions in the physical silver market look so tight to me that I can hardly see straight. I know that many are reporting that there is no shortage of silver or even the possibility of a shortage, but my analysis indicates we are in a severe silver

shortage. This week, after an expected 4.4 million ounce deposit early in the week, there were almost 12 million ounces subsequently removed from the Trust. This silver went out, when new silver should have been deposited instead, due to high share volume and rising prices. This silver was removed because it was needed elsewhere more urgently. This is what a commodity shortage is all about. As a reminder, nothing could possibly be more bullish for the price of a commodity than for that commodity to be in a physical shortage. That's where I think we are in silver.

I don't want what I'm about to say to be misinterpreted so I am going to speak bluntly. Please don't write to me asking what I think about the SLV afterward. I like the SLV. I hold it. I think it's great and that its creation has been the best thing that has happened to silver investors whether they hold SLV or not. Further, I think that all the SLV skeptics and haters who doubt that the Trust holds the silver it claims to hold are nuts and loopy. No, I can't give you my personal guarantee on the Trust; I can just give you my honest opinion. The SLV holds the silver it says it holds.

That said, I have always attacked the idea that short selling should be allowed in the shares of SLV or other hard-metal ETFs (like GLD). In fact, I think I am the only one who has ever raised this issue. Here's an article from three years ago where I delved deeply into the issue -

[http://www.investmentrarities.com/ted\\_butler\\_comentary/06-16-08.html](http://www.investmentrarities.com/ted_butler_comentary/06-16-08.html)

Because these metal ETFs are highly unique securities, any short selling of shares invalidates the spirit of the prospectus which holds there is a fixed amount of metal backing each share. In the case of the SLV, there should be one ounce of silver deposited for each share issued (minus accumulated management fees). The problem is that the short selling of shares of SLV causes unauthorized shares to be issued by short sellers which are not backed by metal.

Let me be clear here □ I believe that the SLV has the silver it claims it has on deposit. The SLV, however, does not contain silver for those shares that are sold short. The latest short interest figures show that there has been a huge jump in the short interest in the SLV, from 22.6 million shares to over 36.7 million shares. This is an abomination. This cannot be allowed to stand, as it represents fraud and manipulation. In futures trading, there is no requirement that a short seller have the actual merchandise. But a seller of shares of SLV (or GLD) is supposed to have metal or shares according to the prospectus.

While JPMorgan and the commercials have been buying back contracts on the COMEX, I believe they may be behind the short selling of SLV shares because there is insufficient physical silver available to deposit into the Trust. This is something the regulators (the CFTC and the SEC as well as the Self Regulatory Organizations) should put an end to immediately. It is a scandal of serious proportions. There is a very simple solution to this serious problem □ outlaw

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short selling in hard metal ETFs.

It also happens to be very bullish for the price of silver and the SLV, so don't take this as a suggestion you sell either. This SLV short position is an open transaction that must be bought back or in which the silver must be deposited. This provides tremendous underlying price support for the SLV and for silver. It would not surprise me to see the shares of SLV trade at a big premium one day. For now, the goal is to get the sponsor of the SLV, BlackRock, (if not the regulators) to put an end the SLV short sellers' fraud and manipulation. I believe BlackRock, the world's largest money manager, is a reputable organization of the highest order. (As I'm sure you are aware, I do not have the same feelings about the silver operations of JPMorgan or of the CME Group).

I had previously indicated that if the short position in SLV shares did not decline that I would write to BlackRock about it. Keeping my word, here is a copy I sent to them a couple of days ago ☐

April 28, 2011

Mr. Laurence D. Fink

Chairman and CEO

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BlackRock

55 East 52<sup>nd</sup> Street

New York, NY 10055

Dear Mr. Fink,

I am writing to alert you to a possible circumstance of fraud and manipulation in your popular ETF, SLV, due to the excessive short-selling of its shares. Current reports indicate the most recent level of total short sales now exceed 36 million shares. This is an increase of more than 14 million shares from the previous reported amount.

<http://www.shortsqueeze.com/?symbol=slv&submit=Short+Quote%99>

Each share of SLV requires that one ounce of silver be held at the Trust's custodian (minus accumulated management fees), according to the prospectus. Since short sellers of SLV shares do not deposit metal with the Trust's custodian, this means that the buyers of the more than 36 million shorted shares of SLV do not have metal backing, as required by the prospectus. It is my belief that many of the shares shorted have been shorted precisely because no physical silver was available to deposit. If I am correct, this may constitute fraud and manipulation, possibly on the part of Authorized Participants (AP's) who make deposits and redemptions of metal in the Trust.

I am a silver analyst and a fan of SLV. I had raised this issue with the previous owner and sponsor of the trust, Barclays Global Investors (BGI). I never did receive a satisfactory answer from BGI about the shorted shares issue, although they did agree to list and publish the bar

Butler Research LLC 4300 South US Hwy. #1 Suite 203-162 Jupiter, FL 33477

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serial number and weights held in the Trust after I publicly urged them to do so. I am hopeful that BlackRock might be more responsive to this issue.

Publicly-traded ETFs that have specific metal backing are highly unique securities. Perhaps a small short position may be overlooked on a temporary basis until the metal is deposited in the Trust due to logistical considerations. But a short position that represents more than 10% of the outstanding shares issued means that many buyers of the shares have no metal backing. This is clearly not in keeping with the spirit of the prospectus that each share issued be backed by one ounce of silver on deposit with the custodian.

I trust you will look into and rectify this circumstance.

Sincerely,

Ted Butler

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I'll report to you on any further developments. Again, please don't interpret this as any suggestion that shares of SLV should not be held, as that is the opposite of my intent. I just want to help fix a problem. I believe this and other factors in silver are wildly bullish for the price. That does not mean we can't sell-off from

time to time. But if we do get those sell-offs, they should be bought.

Also, a number of subscribers have asked about recent margin increases in silver. I don't believe this is a significant market factor, as silver margins should go up as the price and volatility go up. Please remember margin increases are more damaging to the shorts because the longs have the benefit of price gains increasing their equity. In fact, COMEX silver margins look low to me. Truth is, I wouldn't be upset if silver margins were set at 100%.

Ted Butler

April 30, 2011

Silver - \$47.85

Gold - \$1563