

April 4, 2012 - Increasing Clarity

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The price action and news flow around silver and gold are intensifying. While sharply lower prices are never apparent good news (except to buyers), more are becoming aware of the true cause of the price volatility. Likewise, recent news events are coming closer to exposing what is at the core of how our markets are run. In my mind, greater clarity can only be good because the alternative is not knowing what is really going on around us. Make believe is OK for children, but not for investors and market participants.

There is a new intensity in short term price movements in silver and gold, particularly on sell-offs. Late yesterday's and today's price decline is a good example of what I sense is occurring. In essence, the orchestrated COMEX takedowns are becoming more blatant and more observers are becoming aware of what's behind the sell-offs. Let's face it; there are no fundamental supply/demand factors behind the sudden \$60+ swoon in gold and the \$2 smash in silver prices in less than 24 hours. I know this has been the case all along, but the difference now is that many more observers see it as well. And they appear to be speaking out more too.

Just to state the case as simply as possible, these sudden price smashes are

always designed and implemented by the dominant commercial traders in COMEX gold and silver to force leveraged technical funds and traders to sell out long positions and initiate new short positions for the sole purpose of enabling the dominant commercial traders to buy every contract offered for sale. No other price influence is occurring in the markets of any great importance compared to this COMEX rig job and scam.

The exact methodology being deployed that enables the dominant commercial traders to pull this scam off repetitively, aside from outright collusion, is High Frequency Trading (HFT). HFT is the collusive bundling of advanced computer hardware and software that is so advanced and powerful that it has achieved the power to move prices sharply with little actual trading required in setting prices. The way HFT works is that the collusive trading programs suddenly flash great numbers of contracts for sale. But before much actual selling occurs, all the other traders in the market see the great volumes of contracts apparently offered for sale and these other traders withdraw buy orders and start entering their own sell orders to get ahead of the great wave of HFT sell orders offered. Then a not so funny thing happens. Most of the time, very few of the HFT orders originally offered for sale get filled or executed. Instead, they are quickly cancelled. There's even an operative term for this practice that's perfect □ spoofing.

Most of the HFT orders are never filled, nor are they ever intended to be filled.

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These spoof orders are intended to scare others into selling so that the dominant commercial traders can buy gold and silver contracts. And make no mistake, this phony HFT activity has been successful, to the great shame of the regulators at the CFTC, who know that this manipulative trading is against commodity law. The proof that it is manipulative trading lies in the data published by the CFTC. That data shows the big dominant commercial traders are always the big net buyers on the big down days. It is not possible for that to be coincidence; it is as close to cause and effect as is possible.

It also occurs to me that just like the super concentration on the short side of silver is unique to silver, the incidence of HFT-rigged sell-offs is becoming almost unique to gold and silver. It's not that HFT activity is not present in other markets; it's just that it has become an accepted way of life in gold and silver much more than in any other markets. I would attribute this to two factors. One is the encouragement of HFT by the CME Group because they get paid for every trade, manipulative or otherwise. Two, the regulator, the CFTC, has apparently abandoned doing what's right by the public in regards to silver and gold.

Of course, I realize that other markets have declined today as well, so that gives the impression to many that silver and gold being down sharply is in keeping with some general commodity decline. But that excuse is bogus. The better explanation is that the dominant and collusive commercial traders in gold and silver know the right time to deploy HFT dirty tricks and send gold and silver

prices down sharply. These commercials know they need some type of convenient cover story, so they just wait until they have any plausible excuse to pull the HFT trigger. This has always been about looking at a manipulated market through the correct perspective.

I know I repeat myself on all of this, but it is only becoming more widely known recently. As I alluded to at the outset, it is better to know the true picture than be deceived by alternative explanations not grounded in the truth. And while I'm not going to dwell on it today, this latest manipulative sell-off looks to be running its course with the result that the market structure in gold and silver is much stronger because of this takedown. The intent of the commercials is to intimidate and demoralize. Making the market structure better is an unintended consequence for the commercials.

Likewise, the news flow appears to be inexorably moving closer to the important issues in the silver manipulation. The CFTC announced two big cases this week that I think are tangentially related to the silver manipulation. In the first case, the agency brought charges against the Royal Bank of Canada for an alleged hundred million dollar wash trade scheme.

<http://www.cftc.gov/PressRoom/PressReleases/pr6223-12>

Most notable were quotes from the Director of the Enforcement Division, David

Meister, who said, "Today's action should make clear that the CFTC will not hesitate to bring charges against even the most sophisticated market participants who unlawfully exploit the futures markets for their own gain."

Given the lack of action by the agency, many silver investors would question whether Mr. Meister is aware of what's transpiring in the silver and gold futures markets, where an active silver investigation has been in force for three and a half years.

In the second case, the CFTC brought and settled charges against JPMorgan for how the bank accounted for segregated customer funds at Lehman Brothers, when that firm went under. JPMorgan was a lead banker to Lehman Brothers, just as they were to MF Global, where there were also problems with segregated funds. <http://www.cftc.gov/PressRoom/PressReleases/pr6225-12> Once again, Mr. Meister was quoted in the release to say, "As should be crystal clear, these laws must be strictly observed at all times, whether the markets are calm or in crisis."

While Mr. Meister was referring to the laws governing segregated customer funds, silver and gold investors must wonder how he feels about market manipulation, the most important of all CFTC concerns. I don't know how many public complaints the Commission received about the Royal Bank of Canada and JPMorgan on the matters involved in these two cases, but I am certain that there have been many thousands of complaints to the CFTC about the silver

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manipulation, with more coming every day. I realize that regulatory enforcement is not a matter of doing what is most popular, but as a public servant, Mr. Meister should be sensitive to the public's perception of how the agency is enforcing the law. From everything that I monitor, the public is disappointed and angry at the agency's failure to address what is a most blatant silver manipulation.

There is a very big difference between the two cases brought this week by the CFTC and the case they haven't brought against the silver manipulators. The two cases this week are based upon events that have already occurred and ceased years ago. The critical difference is that the silver (and gold) manipulation is a crime in progress. That means the agency has it all backwards in how it is determining its priorities. The CFTC should be bringing charges in the silver manipulation first (or in explaining why there is no manipulation) before it uses its limited resources to bring cases for activities not presently occurring. Somebody needs to explain to the Commission that the greater good to the public is best served on crime prevention and not just on old cases easier to prosecute. If the CFTC were running an emergency room, they would be addressing cases involving cuts and scratches before cardiac arrests. There is no excuse for this failure by the agency to prioritize.

Before the sell-off of yesterday and today, I received this email from a subscriber which embraces much of what we all believe.

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Ted,

Why do we as American citizens have no recourse against the CFTC? They don't care how many articles you write or how often we write to them. This is supposed to be a government of, for, and by the people. Why do we only complain to the commissioners about their lack of regulatory action instead of demanding their dismissal for blatantly shunning their responsibilities? I'm not a political science major so, can we impeached them? Can they be sued? Can they be called before a Congressional Committee and given a chance to explain why they can't complete a three and one half year investigation of the silver market? We won a World War in that amount of time! Why do we sit idly by while they ignore us? If we have no recourse then there is a serious flaw in our form of government. As I see it, elected or appointed officials have a direct responsibility to the American people for what they do. I think the frustration level of those who see the illegal manipulation of silver demands that something out of the ordinary be done. Maybe a subscriber that is an attorney would have some ideas. We are a large enough group with the necessary resources to do something besides just grumbling and sending emails. Let's kick it up a notch.

With kindest regards,

Ron

I think Ron has nailed it. But rather than leave it about what we can do from this point on, let me comment what has been done up until this point. I know sometimes, especially on days like today, it looks like the commercial crooks will stay in control forever. I don't believe that to be the case, even though no one has been more frustrated than me in how long this market crime has persisted. For sure, there is more to do; but much has already been accomplished.

Ten or twenty years ago, I wouldn't have received a letter like Ron's; now, there are many like his. That means more people than ever are aware of this silver manipulation. While that may not sound particularly noteworthy to observers of the silver and gold markets, it is unprecedented beyond measure. There has never been before any widespread public knowledge of an alleged manipulation in effect. There has never been a case in which growing numbers of the public have petitioned the regulators to end a market crime in progress. There has never been a case where elected officials have been petitioned to end such a crime in progress. There has never been a case where such well-known public entities, like JPMorgan and the CME Group have been publicly identified as perpetrators for such a serious crime as market manipulation before the manipulation was terminated.

All these things and many more are unprecedented. While that may not guarantee that the regulators will do the right thing before the physical silver shortage hits, it does suggest they may have to deal with it sooner than that. The thought occurred to me that the CFTC's relative silence on the silver manipulation (along with the silence of JPMorgan and the CME) has actually worked to help spread the growing awareness of it. The allegations of a short side concentration and commercial trader collusion are clear and concise. The silence from the agency to those clear and concise allegations only makes new observers suspicious that something is amiss. Certainly, the petitions to the

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CFTC and elected officials have been at the highest levels possible and still no satisfactory explanation or action has emerged.

Silver investors have every reason to be outraged at the continuing silver crime in progress and the failure of the CFTC to respond to it. It is not healthy for a government agency to enrage or ignore the will of the people. Yet this is what the CFTC is doing with its failure to address the silver manipulation. You should continue to press them to do their jobs. You might want to include David Meister, the Enforcement Division Director (seeing how I'm already off everyone's Christmas card list anyway). dmeister@cftc.gov

This price action has certainly improved the market structure in gold and silver albeit with much pain to existing holders. It's said that what doesn't kill you makes you stronger and I think that is the case for silver now. But I sure do mind that the lesson is administered by the collusive COMEX commercial crooks.

Ted Butler

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Silver - \$31.35

Gold - \$1621