

## A Big Question, Finally Answered

If there has been one question on my mind and on the minds of others over the years, it has been this "if silver is the top notch investment it is claimed to be, then why hasn't a large investor come along and bought a large amount of it?" Given its low price, there are many thousands of investment entities capable of buying significant quantities of the metal. Certainly, the Hunt Brothers did just that into 1980, but I wasn't studying or writing about silver back then.

I did think the question was answered in 1998, when it was revealed that the legendary investor, Warren Buffett, bought an amount of silver (130 million oz.) that was even larger than what the Hunt Brothers bought. But it turned out that Mr. Buffett was more interested in trading COMEX futures contracts against the technical funds for continuing short term profits and wound up losing his silver hoard for a fraction of the price it ran to in 2011. It was, perhaps, Buffett's greatest investment blunder "selling at \$7 an investment that would surge seven times that level in five years.

Since Buffett, the key silver question has gone unanswered "until now. But

thanks to an undeniable flow of facts from April 2011, it has become clear that one of the world's largest, best connected and most sophisticated investors, JPMorgan Chase, has acquired the largest privately owned stockpile of silver in history - an amount I estimate to be between 400 and 500 million ounces. I'll get into these facts in a moment, but the story starts in early 2008, when JPMorgan rescued and took over the failing investment bank Bear Stearns at the request of the US Government.

JPMorgan was always a big player in precious metals and I had included the bank in a handful of "Silver Managers" which controlled the silver market as far back as 2003. For starters, JPM was always and still is the largest player by far in OTC precious metals derivatives. But it wasn't until the Bear Stearns' rescue and the release of the Bank Participation Report in August 2008, that the extent of JPMorgan's monopoly in COMEX silver and gold became known. That report led to the infamous five year CFTC investigation into a silver manipulation that ended with a whimper. But the report also enabled me to publicly label JPM as manipulating the silver market (so far without repercussion) and zero in on the bank's silver activities closely.

One of my many findings was that JPMorgan never took a loss when closing out short silver positions on the COMEX. The bank would just keep adding short

positions until the technical funds were sated and then began to sell. Since emerging as the largest short seller in COMEX silver futures – the short seller of last resort – from March 2008, JPM made hundreds of millions and perhaps billions of dollars in trading against the technical funds until late 2010. Then a developing physical shortage brought about by growing silver investment demand, nearly blew up in JPMorgan's face.

Unaccustomed to failure, yet always alert to new opportunities, JPMorgan embarked on a completely different silver path in late April 2011. The bank continued and intensified its control of silver prices through COMEX futures contracts – maintaining its uninterrupted profit routine whenever it added short positions – but this time with a different overall objective. JPMorgan continued its perfect record in never, ever taking a loss on any silver short contracts it sold, but that became secondary to the bank's new quest – amassing the largest privately owned stockpile of silver in history. To those who cheer successful endings no matter what laws may have been violated or innocent people damaged, JPMorgan succeeded beyond the wildest of imaginations.

Not only has JPMorgan acquired close to five times the amount of physical silver purchased by either the Hunt Brothers or Warren Buffett, it did so as prices declined by nearly 70% from the level of prices in 2011 when it put its plan into

practice. I can understand how many would find that almost incomprehensible on its face – the purchase of more than a third of the world's inventory of silver bullion over five years at steadily and sharply declining prices. And I would agree that would be impossible in a market thought to be free from artificial price manipulation. But that's the point – silver is the most manipulated market in the world and JPMorgan is the main manipulator. The bank was only able to pull off the most remarkable accumulation of any physical commodity in history because it manipulated the price every step of the way. Therefore, JPMorgan's incredible accumulation of silver is, among all other things, the ultimate proof that silver's price has been manipulated.

The facts pointing to JPMorgan's massive accumulation of physical silver beginning in April 2011 look clear in hindsight, but it would be a couple of years before I concluded just what this crooked bank was up to. JPMorgan did not open its COMEX silver warehouse when it took over Bear Stearns in 2008, but only in April 2011, when it decided to stockpile physical metal. From zero ounces in 2011, JPMorgan now holds more than 70 million ounces of silver, the largest COMEX warehouse by far and triple what the next largest warehouse holds. What better place to keep the metal than in your own warehouse?

Then there's the matter of the unprecedented heavy turnover or movement of

silver in and out of these COMEX silver warehouses (mostly only in to JPM's warehouse) which began in April 2011, when I contend JPMorgan made the very conscious decision to stockpile silver. JPM's demand for actual metal necessitated the physical turnover over the past five years. I'm still seeking an alternative explanation.

When silver prices were rigged sharply lower starting on May 1, 2008, over the next two months, some 60 million ounces were liquidated from the big silver ETF, SLV, and no one aside from JPMorgan was in better position to grab that metal. As the trust's custodian and principle authorized participant, JPMorgan was perfectly positioned to accumulate its first 60 million oz effortlessly. Later, in 2012, JPM moved 100 million oz of silver from its own SLV warehouse to Brinks to make room for at least another 100 million oz in its own and very private name. Converting shares of SLV into metal was the main means over the past five years that JPMorgan has used to acquire silver.

Then there is the curious matter of surging sales of American Silver Eagles and Canadian Maple Leafs over the past five years, just as retail demand for silver has collapsed with the price. Retail bullion dealers are loath to admit weak sales for the reason that such an admission may scare away new business. The weak retail demand coincides with a string of high profile bankruptcies of retail

dealers. The fact is that retail sales have largely stunk over the past five years as can be seen in sales of Gold Eagles. The only reason sales of Silver Eagles and Silver Maple Leafs have surged relative to their gold counterparts is three initials - JPM. All told, JPMorgan has accumulated 150 million oz of metal in this manner (with the coins long since melted into 1000 oz bars).

So how could JPMorgan pull off a feat that defies reason - the largest physical accumulation of any commodity at progressively lower prices? The only way possible - through the magic of price manipulation - sell short whatever quantity is required in paper COMEX silver contracts to force prices lower, in order to scoop up the physical metal at bargain prices. The lynchpin to success has been the willingness of the technical funds to play patsy to JPMorgan and the other commercials on the COMEX and lose billions of dollars in the process.

I don't think this silver accumulation process will last much longer for the simple reason that at some point, JPMorgan will be looking to monetize its unprecedented achievement of acquiring more silver than anyone before it. In addition to finally answering a question that went unanswered for nearly two decades, the manner of JPMorgan's accumulation of silver, namely, on the cheap, sets the stage for a price rise of unimagined proportions, due to the facts surrounding the metal. Silver is different than other commodities.

Had JPM instead amassed \$10 billion worth of gold, for instance, it would have ended up with less than 10 million oz. How much money could JPM have made by driving the price of gold higher? Before you answer, consider the facts. With more than 5.5 billion oz of gold in existence, 10 million oz would represent a bit less than two-tenths of one percent of all the gold in the world (in all forms). Certainly, no one would claim that 10 million oz of gold was the largest single holding in the world, as I claim JPMorgan's silver hoard now is. No doubt gold serves as a wealth preserver, which is its main function, rather than as a route to quick riches.

I read of them constantly, but I don't place much credence in reports suggesting gold will climb five, ten or more times in value in the relative near future. Considering how much gold there is in the world, a price of more than \$12,000 an ounce for gold seems unrealistic to me. At that price, the world's gold would be worth more than \$70 trillion, more than any other asset class. I don't fear what such a price would mean for silver because if gold was worth \$12,000, silver would be a lot more than \$15. I just don't think \$12,000 gold is in the cards.

But \$150 silver or higher doesn't seem crazy to me at all. In fact, it is only through manipulation that we haven't achieved that price already. And it would seem JPMorgan would agree with me, based upon its massive silver accumulation. Actions speak louder than words and JPM knows, dollar for investment dollar, the payoff in silver will be infinitely more than in gold. Very recently, I have begun to think that JPMorgan not coming after me for calling them the crooks that they surely are, in fact, may be a reward of some type for me turning them on to silver in the first place. (I always try to think the best of even very bad people).

Finally, as a strong advocate that silver will come to massively outperform gold, I can't help but mention that while JPMorgan, the man, intoned that only gold was money, the bank that bears his name would seem to prefer silver as an investment. Just sayin'.

I hate to interrupt the bullish flow, but there's still the matter of the one price negative in the short term □ the current market structure on the COMEX, where the commercials are still massively short, particularly in gold, and the technical funds are very long. This is the type of market structure that most usually results in a price resolution to the downside in order to reverse the structure. With very few exceptions, the market structure approach has worked for



decades and because of that has attracted more advocates than ever. Can I guarantee it will work this time and result in lower prices? Of course not. But I was struck by some recent commentary that suggested that no one was prepared for the rally in gold which developed since year end.

Yes, it is true that investor sentiment towards gold and silver was very weak into year end and some notable investors, like John Paulson, slashed holdings in GLD just before the rally commenced. But not everyone was bearish on gold or silver into yearend; certainly anyone guided by the COTs and the market structure approach (including myself) was expecting prices to rally. In fact, I am hard-pressed to explain gold's best quarterly rally in many years away from the COMEX market structure.

Simply put, the technical funds, which ended the year with their largest short position ever, bought close to 200,000 net contracts of COMEX gold futures in the New Year, the equivalent of 20 million oz of gold. Without this buying, it is hard to see how gold prices could have risen by the more than \$200 they did rise. It was largely the same case in silver, where the technical funds bought close to 50,000 net contracts (250 million oz) of COMEX silver futures, but only succeeded in driving prices \$2 higher, thanks to JPMorgan's ironclad control on price. The problem is, just like Wile E. Coyote after he runs off the cliff, after

some temporary delay, the major price direction is then down.

I'm not making light of a recurring theme that is far from funny, but like the cartoon, it is demonstrably repetitive. Much more than repetition alone, there is a mechanical explanation for why this almost constantly recurs □ the technical funds are locked into mechanical trading patterns. They buy as prices climb and sell when they fall, with particular emphasis on moving average penetrations. The technical funds are not value investors, they buy or sell on price movement alone. The commercials know this better than anyone and exploit the technical funds incessantly; getting the funds to buy and sell at the commercials' direction.

Now that the technical funds look like they have finished buying or nearly so, based upon historical comparisons, it's usually just a matter of waiting until they sell. It's always quite possible for the process to take longer to play out than one imagines and it wasn't that long ago that the stage was set for a rally that took some time to develop. Specifically, on the gold and silver sell-off from October 29, in which the bullish market structure was largely set by mid-November, it took nearly two months for the inevitable gold and silver price rally to develop. Likewise, the technical funds had completed the bulk of their buying by mid-February and it's largely been a waiting game since then.

Please don't take any of this as a guarantee that gold and silver prices must or will fall, just that the probabilities based upon the market structure approach suggest that will be the case. In some ways, this is akin to picking up nickels and dimes in front of a steam roller; I am certain that silver will explode, just that it will dip one more time before it does. That sounds arrogant on its face, but my reasoning isn't arrogant, of that I am certain.

As far as what this week's COT and Bank Participation Reports might indicate, the dippy-doodle and scam within a scam trading strategies have muddied my crystal ball. Gold has managed to hold its 50 day moving average and hasn't come close to penetrating its 200 day moving average (still at \$1140), so one would think there wouldn't have been very significant technical fund selling to date, although there might be some. Silver has penetrated its 50 day moving average on a closing basis for four trading days in a row and is not far from penetrating its 200 day moving average (\$14.90) decisively. As such, I wouldn't be surprised to see further technical fund selling on the order of 5000 to 10,000 contracts. However, more than anything, I'm anxious to see what the reports indicate about Boss Morgan.

April 6, 2016 - Big Question Answered

Ted Butler

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Silver - \$15.05 (50 day moving average - \$15.18)

Gold - \$1224 (50 day moving average - \$1214)