August 17, 2022 – The Short Position in SLV

Having mentioned the sharp recent increase in the short position on SLV, the big silver ETF, in my last two missives to subscribers, I thought it proper to expand on the matter. As always, this is not a suggestion to buy, sell or hold shares of SLV and in the interest of full disclosure, I (my wife) still holds the same positions in SLV and PSLV, since the last time I wrote about this issue.

The important point is that SLV is the single largest repository of physical silver in the world, owned and sponsored by the worldâ??s largest asset manager, BlackRock, and its custodian is JPMorgan. That combination alone is enough to set off anyone paying the slightest bit of attention to the workings of the silver market on a tangent and gets just about everyoneâ??s juices flowing, most often in a negative manner. While the quest for a balanced view on SLV is challenging, it is also quite important, given the place SLV holds in the world of silver.

Having followed the fortunes of SLV since when it was first proposed, even before it commenced trading in April 2006, Iâ??ve always tried to analyze it as objectively as possible. In fact, back in the day, more than 14 years ago, I helped convince the then-sponsor of SLV, Barclays Global Investors, to publicly list the serial numbers, specific weights and hallmarks for each 1000 bar held by the trust â?? the one true safeguard that the metal held to back the trust was actually held.

http://news.silverseek.com/TedButler/1199736334.php

Trying to be as objective as possible about such an important security – the worldâ??s largest holder of physical silver – the one thing that always struck me as manipulative and fraudulent was short selling in SLV.Â I let my feelings be known to the sponsors of the trust whenever the short position grew excessively large, both when Barclays owned the trust and when BlackRock bought and took over Barclaysâ?? I-Shares ETF operations.

Long-time readers may recall my last tussle with BlackRock ten years ago, when my objections about short selling in SLV, prompted BlackRock to have their outside attorneys allege that I was defaming BlackRock and its CEO and President, which was not my intent. The issue blew over and the short position on SLV remained moderate until recently.

Quite ironically, in Feb 2021, at the height of the â??meme stockâ?• phenomenon, which spilled over into silver and SLV, important new amendments to the prospectus of SLV, in the form of new risk factors were published, including the admission that there might not be enough physical silver available to continue operations as had been in the past. Included were warnings to those selling short shares of SLV, which ironically, was along the same lines of what I had warned BlackRock about ten years earlier.

The recent sharp increase in the short position on SLV is important enough to have prompted me to complain, only this time not to BlackRock, but to the Securities and Exchange Commission. Last week, I sent this letter to several sections of the SEC â??

August 11, 2022

Dear Sir;

I am contacting you to lodge a complaint against BlackRock, Inc. for failing to uphold its fiduciary responsibilities both to shareholders of its I-Shares Silver Trust (SLV) and in its own shares (BLK). The matter involves manipulative and fraudulent short selling in shares of SLV, an issue which I have raised with its senior management in the past (to no avail). BlackRock is the sponsor of SLV.

SLV is a particularly unique security in which shareholders are led to believe that each share is backed by a specific quantity of physical silver – one ounce of silver for every share, minus the accumulated management fee since the trustâ??s introduction in 2006. The problem with the short selling of shares, even if borrowed and not sold naked short, is that the shorted shares are actually â??phantomâ?• shares in which share owners are deprived of metal backing as set out in the prospectus.

What prompts my (renewed) complaint at this time is a recent and rather shocking increase in the short position of SLV, as of the most recent reporting date of July 29, 2022, in which the short position grew to 47.5 million shares, or 9% of total shares outstanding. This means that roughly one out of every 10 shares outstanding has no physical silver backing.

https://www.wsj.com/market-data/quotes/etf/SLV

Compounding the problem is that in February 2021, at the height of intense retail investor interest in SLV and silver in general, a whole set of new risk factors were issued in a prospectus amendment, in which important new risk factors were laid out, including an admission that there may not be sufficient physical silver available to conduct business as usual. Included in those new risk factors was a specific warning to short sellers to be advised that short selling in SLV may be particularly risky. At the time of the prospectus revisions, the short position in SLV was 17 million shares or 2.8% of total shares outstanding.

The most recent short position in SLV is now close to three times larger in total shares shorted and more than three times larger in terms of a percent of total shares outstanding, so obviously BlackRock is ignoring its own prospectus amendments issued in Feb 2021.

Not only are the unbacked shares created by the excessive short selling of real concern to shareholders of SLV (of which my wife holds in her retirement account), but shareholders of BlackRock itself are being cheated due to the phantom shares created by the excessive short selling not paying the annual management fee on shares not officially issued, thus depriving shareholders of BLK an important source of income.

The most plausible explanation for the large increase (50% over the past month) in SLV shares shorted is that the short sellers didnâ??t wish to abide by the prospectus to deposit silver for newly created shares to avoid upward price pressure in the physical silver market â?? clearly a manipulative and fraudulent ploy.

If you need any additional information, please donâ??t hesitate to contact me, as this is very much a serious market crime in progress.

Theodore Butler

Whether the SEC acts on this is beyond my control, but I believe it should. Excessive short selling has no place in shares of SLV, for the reasons contained in my letter. At the same time, however, I would anticipate that the haters of SLV, of which there are many, may attempt to put this short-selling of shares into another reason to hate SLV. I suppose itâ??s somewhat natural for many to diss SLV, considering the competition it provides for those offering other forms of silver, as the vast majority of SLV critics just happen to market silver in other forms. Please allow me to present some counterbalancing factors.

Generally speaking, a large short position in any stock can be a very bullish market factor, unless the stock being shorted represents a company that is failing. Since SLV is a play on silver and not a company, itâ??s not as if silver can go out of business or cease to exist as a going concern. The most plausible reason for the recent excessive shorting in SLV revolves around the short sellers not being able or willing to buy physical silver due to the upward price pressure that would exert on silver and SLV. In fact, I canâ??t think of another possible reason, particularly considering the recent sharp decrease in commercial shorts positions on the COMEX.

Please remember, what set off the meme stock phenomenon of early 2021 was excessive shorting in stocks like GameStop, which came to be recognized and exploited by buyers. It seems more than reasonable that a similar recognition of what is occurring in SLV could have the same results, namely, of a rush to buy, particularly considering the recent resurgence in meme stock buying enthusiasm.

Back in early 2021, as the meme stock phenomenon was exploding, silver and SLV were considered included in the group, although that proved to be fleeting. I find it particularly ironic that the short position in SLV is now three times larger than it was back then, not something that exists in the other meme stocks to my knowledge. The irony is that excessively large short positions were the prime theme that set off the meme stock phenomenon.

Even though I recognize the low opinion in which many hold JPMorgan, the custodian of SLV, and even BlackRock itself, I am more persuaded that their importance to the financial system would work to the benefit of investors in SLV in the long run. Â No one could be more convinced of JPMorganâ??s manipulative role in silver and gold than me and I believe I was the first to identify JPM as the big silver and gold head crook. That said, following JPMâ??s deferred criminal prosecution with the Justice Department, I donâ??t think it would dare jeopardize the agreement by further precious metals criminality. As for BlackRock, Iâ??m still of the opinion that it would be foolish for it to risk severe reputational harm by allowing a scandal to occur on a security that represents less than a tenth of one percent (0.1%) of its total assets under management, said to be upwards of $10 trillion.

One thing to keep in mind is that if my contention is correct that interests related to JPMorgan hold as much as 50% (or more) of the 2 billion oz of silver that exists in 1000 oz bar form, it would be impossible that this is not also the case with the 500 million oz held in SLV. You can be sure that these

JPMorgan interests would seek to protect their holdings in SLV, thereby strengthening those interests holding SLV not related to JPM as well.

One thing Iâ??m not sure Iâ??ve mentioned previously is the possibility that shares of SLV could very well come to trade at a premium to physical silver, in the event the warnings from BlackRock in Feb 2021 ever come to pass. While I was, admittedly, skeptical at first about Izzy Friedmanâ??s warnings of big premiums developing on Silver Eagles some 20 years ago, such premiums are now a fact. I remember hearing many opinions back in the day how it wasnâ??t worth paying a dollar or two more for Silver Eagles than competing coins, only to have witnessed recently that those buying Silver Eagles back then could now be getting the full price they paid for the coins back in the form of premium alone, with the appreciation in the price of silver as a bonus.

Likewise, I consider it quite possible that a premium on shares of SLV could develop to 1000 oz bars, as and when a shortage deepens. The convenience of holding silver in common stock form in a physical silver shortage could easily boost the shares of SLV and other silver ETFs over spot prices. Even the slightest premium could easily offset the cumulative annual management fee discount built into the current price. Knowing that interests associated with JPMorgan would also benefit from a premium developing in SLV and other silver ETFs is far from a negative strike against such a future occurrence.

Therefore, while I find the recent excessive increase in the short position on SLV to be fraudulent and manipulative, thatâ??s not to say it is bearish from this point. Once a short position is established, the suppressive force it has on price has already been spent. As shorted shares are then bought back (or physical metal is deposited to offset the short sale), a counter-balancing upward price force is exerted.

Turning to other matters, as I begin to write this on Wednesday morning, I find the sharp selloff this week to be other-worldly and completely the opposite of what I had expected going into this week. Yes, I did have some concerns about the sharp buildup in the concentrated short selling in gold by the former big COMEX commercial shorts, but no such sharp build up had occurred in silver â?? yet silver has more than fully-participated to the downside.

Iâ??m well-aware of the â??cover storyâ?• of economic weakness in China and do admit should things get worse there, it could have a negative impact on just about everything, including copper and other industrial metals, as well as stocks and world economic fortunes. But silver? If things were to really go to hell, silver and gold would be about the only thing catching a bid. In fact, in the weak China economic data, about the only sector showing strength was buying of gold and silver jewelry. I didnâ??t see one story this week, suggesting anything truly negative about silver specifically â?? just the lower price.

Of all people, I suppose I should be the least surprised at the counterintuitive selloff in silver for the very reason I have outlined for decades, namely, artificial and manipulative price fixing on the COMEX. Certainly, there was absolutely no evidence of any kind that the actual supply of silver had increased or that actual demand, industrial or investment, had fallen off. The price selloff was strictly a COMEX-orchestrated affair. Of note this time was that actual trading volumes were very much on the light side and didnâ??t seem to involve significant positioning changes between the commercials and managed money traders. As such, the sudden sharp price weakness was particularly frustrating.

Whatâ??s most remarkable is that at a time when more observers and commentators are tuned into the COMEX price manipulation than ever before and immediately following the (partial) victory of the Justice Department in securing criminal convictions against two former traders from JPMorgan for manipulating gold and silver prices on the COMEX, this weekâ??s deliberate price smash is particularly bald-faced. Itâ??s downright funny (not that Iâ??m laughing) that anyone could be serious in suggesting that newly proposed trading exchanges in India or Russia could possibly dent the COMEXâ??s control on gold and silver prices.

If anything, this weekâ??s price smash indicates that the COMEX has never been stronger in setting prices than ever before. Itâ??s as if the artificial price control of the COMEX has never been stronger, to the point of being totally invincible and impervious to change. After all, whoâ??s about to stand up to the commercial crooks on the COMEX â?? the CFTC or DOJ or the self-regulator, the CME Group? Or the SEC, when it comes to the excessive and manipulative short selling in SLV? Quite frankly, it would appear to be hopeless â?? based upon their combined track record to date â?? to expect any of these regulators to actually regulate.

But it is precisely at times of near-hopelessness that great change can be at hand. Not necessarily because the regulators decide to stand up and do what they should have done long ago, namely, crack down on the concentrated short position in COMEX silver and the fact that never have the commercials bought back short positions on higher prices. I suppose there might be some long-shot odds of that occurring, but the change I speak of is most-likely to be on the part of the manipulating commercials themselves. As egregious and blatant as this weekâ??s price rig has been, it doesnâ??t come close to erasing the remarkable positioning changes that have occurred over the past few months. If anything, this price rig lower undid some of the recent deterioration (managed money buying and commercial selling), as the commercials never sell on lower prices.

It’s not possible that the collusive COMEX commercials are not fully aware of the price rig they have been running for decades, although the leading players may have changed along the way. As such, they are well-aware that their price rig has resulted in a long-term suppression of silver prices and also know that must result in a physical shortage at some point â?? the signs of which become more abundant everyday â?? from everything to the now long-term premiums that have developed on retail forms of silver to more signs of wholesale physical tightness than ever before (why else for the record shorting in SLV?).

Therefore, you can be sure the commercials are doing everything in their power to rid themselves of as many COMEX silver shorts as possible, which can only happen on lower prices. How low might prices go? I donâ??t know, since I thought weâ??d be higher this week. I do know there is nothing about this weekâ??s selloff that is remotely legitimate or in conformance with anything occurring in the real world of silver supply and demand. More than ever, I am convinced that when the turn higher occurs, it will be a turn like none weâ??ve seen. The good news is that there is a near-perfect way to play what I just described â?? simply own silver on a fully-paid for basis.

As far as what to expect in Fridayâ??s new Commitments of Traders report, since gold and silver prices did drop as much as $25 in gold and 60 cents in silver over the reporting week ended yesterday, the usual formula would call for some improvement in market structure (managed money selling and commercial buying). But volume was light and Iâ??m not sure what to expect, although significant positioning changes would be a surprise.

Ted Butler

August 17, 2022

Silver – $19.90Â Â Â (200 day ma – $22.75, 50 day ma – $20.18, 100 day ma – $21.78)

Gold – $1785Â Â Â Â Â Â (200 day ma – $1842, 50 day ma – $1786, 100 day ma – $1841)

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