

August 2, 2010 – A Question and an Interview

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Here's a very timely question from a subscriber in Switzerland, followed by an interview with Jim Cook, from Investment Rarities, Inc.

Dear Ted,

Just listened to your interview with KWN.

Therein, you say that over the last couple of weeks the big commercials reduced their short-positions by some 12'000ctr. and you speculate that JPM alone reduced its position by 10'000 ctr.

As per last Tuesday we had some 44'483ctr short in the 1-4 category (Futures only).

Now my point, if they reduced 10'000ctr in only a couple of weeks and continue to do so going forward, by Oct-Nov they might bought it all back. In other words, they were able to buy back some 20% of all their shorts and the price is still at about the same level as in June of this year. The question one might is simply: can't they continue to buy back 10'000, 20'000 or 40'000 over the weeks, while the price stays at current levels? And if not, what would be your arguments?

I think this point would be worth exploring for other readers, too.

Most appreciated.

Respectfully

Urs

This is a great question. If JPMorgan (and the other big shorts) can completely close out their concentrated short position with no effect on the price, then what the heck have I been talking about for 25 years? Let me not mince words or beat around the bush Â? if the concentrated short position in COMEX silver can be made to somehow go away without a big impact on price, then I will have been wrong in my assertion that there has been a long-term silver manipulation. At the very least, it's always important to declare beforehand what result would constitute a premise being proved right or wrong. None of this Â?I'm always right, no matter what happens.Â?

Yes, it is my analysis that, since the COT of June 29, JPMorgan has closed out around 10,000 contracts of what was roughly a 34,000 contract net short position back then. So JPM has been able to buy back approximately a third of their silver short position with little overall impact on price. Please remember, not only am I not disputing this, basically I am the one making the assertion.

I never said that the silver traders for JPMorgan weren't skillful. To the contrary, I believe these JPM traders, both now and when they were at AIG and Bear Stearns, dominated and controlled the silver market for more than two decades. You don't do that without skill (and illegal behavior). But skill and treachery go so far. The reason that JPMorgan was able to cover so much of its short position over the past month was by tricking the other commercials. Yes, the technical funds have been snookered, as always, by the commercials as a group, but separately JPMorgan has snookered the other commercials as well. This is a theme I have written about on more than one occasion over the past few months. This is evident in that JPMorgan has accounted for more than 80% of the reduction in the total net short position since June 29. This should be clearly reflected in this Friday's Bank Participation Report.

Basically, JPM participated with the other commercials in buying what the technical funds were tricked into selling on the downside, as usual. But what was different this time was that JPMorgan also bought on rallies on select days, buying from the smaller commercials (the raptors) who sold out long positions at a quick profit. This buying by JPM both on the downside and to the upside is what enabled them to reduce their short position by a third. The problem for them, as I see it, is that there is a limit to this type of buying. Sooner or later, JPM will run out of tech fund selling to the downside, or other commercial selling to the upside. I think we are at that point.

In essence, JPMorgan has harvested the low-hanging fruit. The first third of their short position will prove a lot easier to buy back than the next two-thirds. Any further short-covering here by JPMorgan will have a much greater impact on price than their short-covering to date. At least, that's the way I see it.

Here's the interview with Jim Cook Â?

Cook: I want to limit this interview to a discussion of why someone would switch gold into silver. You advocate that right?

Butler: Yes

Cook: What's the main reason?

Butler: Because those who switch will make a lot more money than those who don't switch.

Cook: Don't you think gold will go higher in price?

Butler: I think it will, but silver is poised to go much higher relative to gold.

Cook: Most people believe gold has done better than silver up until now. What do you say to that?

Butler: An objective analysis would suggest otherwise.

Cook: Give us the objective analysis.

Butler: If you bought gold at the extreme lows of \$250 or silver at \$4, your returns would be roughly equal.

Cook: People have an emotional attachment to their gold. It's hard to part with. What do you say to them?

Butler: That emotional attachment could cost people a lot of money.

Cook: What do you mean?

Butler: I believe that the emotional attachment is to the idea of gold, not to gold itself. People want an asset that is immune from the conventional financial system and government control. Gold has traditionally been that asset. I understand and accept that. However, due to changes in the world over the past 100 years, silver has become better than gold.

Cook: Better than gold?

Butler: Yes, better. I believe silver is the new gold.

Cook: What could make you say that?

Butler: The fact that we have used up so much silver over the past 50 years. Now silver is rarer than gold in world bullion inventories. Only a handful of investors realize that.

Cook: What is the status of gold and silver inventories?

Butler: World silver inventories are at their lowest point in 200 years while gold inventories are at their highest.

Cook: Do you know how much egg you will have on your face if gold goes up and silver doesn't?

Butler: I don't worry about that. Do I have egg on my face for informing the world that silver was manipulated, or rarer than gold or that JPMorgan was the big silver short?

Cook: Frankly, I own some gold and I don't think I have it in me to make the switch.

Butler: In all due respect, your emotional attachment is showing. I don't deny that's a powerful force, just that investment analysis is different. I'm not suggesting people sell their gold and call it a day. I'm suggesting a conversion of gold into silver. This way, you keep the emotional attachment and greatly boost your investment returns.

Cook: I think it's a good time to switch rare coins into silver. What do you say to that?

Butler: I think it's a good time to switch anything possible into silver, including rare coins.

Cook: If a person only owns gold and no silver what about shifting a percentage of it into silver?

Butler: It's important to get as much silver as you can.

Cook: Can you give us an illustration by using the prices we could see in the future?

Butler: Sure. Let's say silver goes up 300% to \$50 an ounce. To equal that gold would have to go to \$3,600. With silver at \$100 an ounce, gold would need to be \$7,200.

Date Created

2010/08/02