

Staying Focused<?xml:namespace prefix = o ns =
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It is amazing how quickly personal and market sentiment can change in just two or three days. Then again, after such a long stretch of down to flat prices, the quick pop in gold and, particularly, silver prices was bound to lift spirits a bit whenever it eventually came. The question, of course, is the three day jump of \$1.75 in silver and \$35 in gold the start of something bigger or is it just a flash in the pan? As always, time will tell.

The quick jump in price also raises additional questions, like what's behind the price rise and the role of prime silver manipulator, JPMorgan. Here too I have been amazed at how widespread appears to be the knowledge of JPMorgan's role in the silver manipulation, including rumors of regulatory action. I'll believe that the CFTC will intervene in the silver manipulation only after they do so; but I remain convinced that JPMorgan is in it up to their ears. As always, I'll pay closer attention to the documented data, including this week's COT report and the new short position report, both of which should be available in time for the weekly review. The COT report will include all COMEX trading thru yesterday, so we'll be able to see what JPM may have been up to, although the short position in SLV will only be thru August 15 and, therefore, leaves out the big rally on Monday and Tuesday.

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While I can't tell you if the current move is the start of the big move in silver or will be smothered eventually by additional short sales by JPMorgan, I can tell you that if JPMorgan does succeed in manipulating silver prices lower yet again, it will most likely prove to be a temporary decline. That may sound like analytical doubletalk and butt covering, but I believe it to be the key to long term investment success. In other words, even if the crooks at JPMorgan manipulate silver prices lower in the short term, then can't do so long term. The big silver move is coming, even if it is not here now. The key, therefore, is to play it long term (as most of you do anyway) and refuse to be fooled in the short term. More than ever, the key is to stay focused.

Both on a COT market structure and physical supply/demand basis, silver should be much higher in price. I don't mean much higher in terms of five or ten dollars; I mean much higher in terms of a double or triple or more. The only thing preventing those price levels currently is JPMorgan's continued concentrated short position (still growing according to the latest COT). JPMorgan's dominance of the market is the explanation for both the current depressed price and the future high silver price to come. I think it's important to keep that in mind at all times and it might balance the day to day emotions. I guess what I'm saying is don't be terribly disappointed if this current move proves to be short-lived; but don't be terribly surprised if we do rocket higher here either. Staying focused means staying in control. Few can divine short

term movements consistently, but many can capture long term movements by being correctly positioned in an undervalued asset, like silver.

The simple truth is that silver should be much higher in price because the manipulation by JPMorgan has created an asset that is undervalued. Not only is silver undervalued on an absolute price basis, it is also severely undervalued relative to its most comparable measure - gold. I know I beat this to death, but apparently not enough. That's because more money is invested in gold, by a factor of 150, than is invested in silver. Let me take time to say that clearly; there is more than 150 times more money held in gold than is held in silver. Stated differently, all the silver bullion in the world is worth about one-half of one percent of all the gold bullion in the world. That's how I can be so sure that I haven't beaten the switch from gold into silver mantra to death, as there are miles to go before too many investors crowd into silver relative to gold. I'm certainly not negative to gold, as I hope I have conveyed for the past few months. It's just that lifting a market with a total worth measured in the trillions of dollars requires more investment than in lifting a market with a total worth measured in the tens of billions of dollars. Besides, if any market stood a chance of being lifted by a surprise regulatory development, it would have to be the market under active investigation, namely, silver.

More and more, I'm visualizing the past year and a half in silver to be remarkably similar to the comparable period of time just prior to August 2010,

when silver embarked on an eight month price journey from \$18 to almost \$50. Over this same period, gold moved from under \$1200 to over \$1500, so silver's outperformance was pronounced. This was the most exciting time in silver since 1980, so I may be engaged in an exercise of wishful thinking. Still, enough circumstances seem analogous to me to compare that time period to the present.

For one thing, the gold/silver ratio remained in a long and broad trading range at what turned out to be a high level of around 65 to 1 into August 2010. Over the following 8 months, the ratio declined by 50%, meaning silver vastly outperformed gold; with silver rising more than 150% in price, compared to gold's 35% rise. In other words, that was a silver-centric move, with silver being the star attraction. For the past year, since the manipulative three-day takedown of silver in September 2011 (the second of that year), the gold/silver ratio has been in a long and broad trading range approaching 60 to 1.

In essence, the gold/silver ratio is an accurate measure of the silver manipulation. When the silver manipulation is in full force and at peak effect, the ratio is invariably high (like it is now). When the manipulation is waning, the gold/silver ratio declines. Since it is hard for me to imagine the silver manipulation growing stronger going forward (except in the very short term), it would appear that a waning of the manipulation will translate into a sharp outperformance in silver and a big decline in the ratio, just like what occurred

after August 2010. It is very easy for me to imagine a 100% or 200% rise in silver with a concurrent 30% rise in gold again. Needless to say, in that event silver will be far more rewarding to investors.

Another factor pointing to a repeat of silver's performance beginning in August 2010 is the rumblings from the physical market. What's different is that two years ago we were in an almost five year uninterrupted run of strong silver investment demand that hit a crescendo into April 2011. The price smashes of May and September 2011 ended the investment surge, albeit temporarily. With unrelenting silver inventory turnover and new signs of investment demand reviving in silver, it's easy to imagine the physical silver dog beginning to wag the price tail, as it did post-August 2010. This may be an unusual event in the silver market, but it is the way true price discovery is supposed to work.

In remembering what I wrote both before and after August 2010, I tried to be careful about placing too much emphasis on COT readings and short term considerations; same as now. I saw many proclaim the top was in starting at the \$20 level and up back then. Knowing how undervalued silver had been for so many years, I was reluctant to call the move over. It would have been great to sell at \$49 and re-buy at \$26, but that would have been mechanically impossible for all to do. I sense now that the big mistake will again be in selling too soon, same as it was back then.

One thing that hasn't changed much in two years is the role of JPMorgan as the prime silver manipulator. In order to get a sense of JPM's role back then, I actually took to rereading some of my articles, something I don't usually have time for. On September 2, 2010 (in the archives), I wrote an article titled, "JPMorgan and Silver," in which I described as very bullish the announcement that JPMorgan was disbanding its propriety commodity trading operation in reaction to pending regulations. While silver did behave very bullishly shortly thereafter, JPMorgan didn't cease its manipulative grip on the silver market. I think JPM intended to exit the silver market, but it did not do so. Why not? Just as remains the case today, there is no easy or quiet exit they could make without proving to the world that JPMorgan had been manipulating the price of silver.

JPMorgan's dilemma, both then and now, is that their silver short position is too big and concentrated to be liquidated in an orderly manner. This is the problem with concentration and manipulation — a position too large distorts and threatens the orderly functioning of any market. Let me try to state it in slightly different words than I have used in the past. There is only one position that threatens the orderly functioning of the silver market and that position is JPMorgan's short position in COMEX silver. Every single long position in silver could be liquidated without undue upheaval to price. Every single short (aside from JPM's position) could most likely be liquidated without an upheaval in

pricing, although one or two other large short positions might prove problematic in silver. Only JPMorgan's silver short position stands clearly alone in the big problem category.

Because JPMorgan stands out so clearly in silver, their actions will likely determine the direction of silver prices. That was true in August 2010 and is true today. Worse for JPM, the recognition that they are the prime silver manipulator is a public relations nightmare. The bank has largely ignored the growing chorus of allegations of silver manipulation, perhaps thinking it would all just go away if they didn't mention it. Clearly, that has not occurred. If anything, the allegation of a silver manipulation by JPMorgan is more widespread than it was two years ago or than it was four years ago, when the now infamous silver investigation was begun by the CFTC. I think this confirms my contention of just how stuck JPM is in silver and how hard it is for them to just blink their eyes or click their heels and make the position just go away. It is simply not reasonable to think that JPMorgan would willingly establish their concentrated silver short position today given all the facts. They have the position because they are stuck with it.

Of course, this makes JPMorgan a danger to the market as well, as they will most likely look for continued opportunities to cause the price of silver to fall sharply if they can. That's unfortunate (except to new buyers), but something that must be faced straight on. Just as JPMorgan played a pivotal role in the 8

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month price run (and subsequent smash) that began in August 2010, its role will prove pivotal now.

Based upon all the facts, silver should explode upwards in price. Whether it will do so now remains to be seen. We can only control that which is within our control and that includes how we approach the market. Holding silver on a non-margined basis is the surest way of riding out any deliberate downdrafts and of being sure of participating in the price surge to come. It's time to stay focused.

Ted Butler

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Silver - \$29.75

Gold - \$1652