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I'll address new developments and market turmoil, including the continued price weakness in silver in a moment, but first I would like to pass along some new thoughts on silver that are much longer term in nature. Long term considerations, of course, tend to get tossed aside when the short term is in great flux.

I was asked recently a question that has come up often over the past 2 to 3 years, namely, why has there been such a large decline in the metal holdings in the big gold ETF, GLD, starting at the beginning of 2013 and no comparable decline in the metal holdings in the big silver ETF, SLV? It's a darn good question, seeing how gold holdings in GLD declined by a full 50% over that time, while silver holdings in SLV have barely budged.

What complicates the question even more is that it looks clear to me that the big reduction in gold holdings in GLD (and other gold deposit vehicles) over the past 2.5 years is fairly obvious and is directly related to investor liquidation in response to declining gold prices. This investor liquidation of shares of GLD and

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the resultant physical withdrawal of metal from GLD is a mechanical process that is proscribed in the prospectus of the trust □ on net selling, metal is withdrawn from the trust and on net buying, metal is added.

I don't disagree that the gold withdrawn from GLD may have found its way to China or elsewhere, but that is separate from investor liquidation being responsible for the reduction in gold holdings in GLD. I've read stories suggesting GLD was □raided□ but I don't see how that's compatible with the straightforward mechanics of investor liquidation and the resultant reduction of metal holdings.

The complication is that there was no such withdrawal of silver from SLV, even though silver prices have been much weaker than gold over the same period. So why the big liquidation in GLD and no comparable liquidation in SLV?

Previously, I had advanced the idea that investors in SLV were stronger holders than GLD investors and while I still believe that's generally accurate, it doesn't go far enough to fully explain the no liquidation in SLV versus the big liquidation in GLD. By the way, this phenomenon is not limited to just SLV and GLD, as the

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exact same pattern exists in total private reported holdings in all reported silver and gold holdings over the past 2 to 3 years. GLD and SLV metal holdings have consistently maintained a share of between 35% and 40% of total private ETF and exchange holdings of each metal and that consistency and large share makes them accurate overall proxies for total world metal holdings in these vehicles.

In pondering the question more, I've come up with further thoughts. In fact, I've come to the conclusion that the right question is not being asked. Instead, the real question should be why so little gold came into GLD (and other ETF-like deposit vehicles) from the introduction of GLD in late 2004 thru the end of 2012, as gold rose from \$400 to over \$1900. Before you think I've lost my mind, I fully stipulate that more than 43 million ounces of gold, worth (at peak prices) more than \$75 billion was held in GLD at the peak. Furthermore, I fully stipulate that all such gold metal holdings in similar investment vehicles (including exchange stocks) came to 100 million ounces worth \$190 billion at peak prices.

So where do I get off suggesting that the right question to ask is why so little gold was deposited and held by GLD and other similar gold vehicles? While such amounts of gold in ounces (100 million) and in dollar terms (\$190 billion) are massive at first blush, compared to all the gold bullion in the world (3 billion

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ounces out of total gold holdings of 6.5 billion ounces), at the peak in holdings, all the world's gold ETF-like vehicles held only 3% of the world's total gold bullion holdings and only 1.5% of the world's total gold holdings in all forms. I would further stipulate that 3% and 1.5% of anything are not particularly large percentages.

However, in the case of silver there is a completely different percentage profile. The roughly 325 million ounces in silver holdings and the total 850 million ounces in all ETF-like vehicles (including exchange inventories) make up all (100%) of the known 1000 oz. bar inventory that exists in the world. Even when you add in the 450 million ounces of unreported silver in 1000 oz bar form that I believe exists, that creates total world silver inventory of 1.3 billion ounces. What that means is that total silver ETF and exchange holdings make up 65% of the total world inventory of 1000 oz bars.

So the real question is why do ETF holdings in gold make up only 3% of total world gold bullion inventories, while silver ETF and exchange holdings make up 65% to 100% of the total world inventories of 1000 oz bars of silver? I think the answer to this question not only explains why silver ETF holdings weren't liquidated while gold ETF holdings were, but also explains what is likely to unfold pricewise in the future. The answer is simple □ silver needs to be

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professionally stored, while that's not as important for gold. It has nothing to do with anything other than practical storage considerations. It has everything to do with how much of each metal you get for the same dollar amount.

100 ounces of gold (not coincidentally the size on one COMEX futures contract) comes to \$112,500 at current prices (\$1125). 100 oz of gold weighs about 6.5 lbs., a weight, that can be held and moved and stored personally with ease unless you are seriously infirmed. That's the equivalent of 100 one-ounce gold coins. That's a pretty large amount of money that doesn't amount to much in bulk or weight and as such doesn't necessarily need to be given to a counterparty for storage. For the vast majority of gold investors, it defeats some of the purpose to hold gold if not held in hand and I can't imagine any gold holder complaining that 100 ounces of gold is too heavy.

On the other hand, the same \$112,500 will buy at current prices (under \$14.50), more than 7500 ounces or more than 500 lbs. Unless you are an Olympic weight lifter, you will have trouble lugging around and personally storing 500 pounds of anything, including silver. I'm not saying it can't be done and I am a proponent of holding real metal in hand, but it's easier said than done for those capable of investing with large sums of money.

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Larger dollar amounts compound the storage dilemma. One million dollars equates to less than 60 pounds of gold and more than 4500 pounds of silver – or more than two tons and more than what the average automobile weighs. I don't know anyone who could lift their own car or that much silver. My point is simple – at what are reasonable modern investment dollar thresholds, it becomes imperative to professionally store silver and not similarly imperative to store gold outside your personal possession. This is an old theme of mine, namely, that you get “too much” silver for the money, so much that you have to have it stored. While the theme might be old, I see something new that I hadn't seen up until now.

The silver metal holdings in SLV first crossed north of the 300 million oz level in September of 2009, on the way to over 360 million oz in April 2011, so today's level of around 325 million oz is about midway. I think the stability in SLV holdings, has caused many, including me, to overlook a key takeaway. While it's interesting to speculate why holdings in GLD declined so dramatically and not the holdings in SLV, that's not the central issue.

The key takeaway is staring us right in the face – the incredibly large and fully

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documented fact that much, if not all of the world's total inventory of 1000 oz bars of silver resides in publicly-owned ETF-type investment vehicles and exchange inventories (COMEX). All the visible and documented silver bars in the world, some 850 million oz, are known to exist only because they are in the ETFs and exchange warehouses. It is only when you add another, quite unverifiable, 450 million oz (mostly owned by JPMorgan I believe) does the percentage of all industry grade residing in ETFs drop from 100% to "only" 65% of total world silver inventories. Remember, in gold the percentage is under 3%, which helps put just how large is the percentage of silver in the ETF-type vehicles of total world inventories.

But the comparison to gold is not the important point. What is important is the stunning change the silver ETF's have had in transforming the profile of who owns the world's silver inventories today versus who owned the silver previously, say ten years ago longer. Previously, the world's inventory of silver was owned by governments, dealers and those in the industry, including producers and users. Today, none of the old silver owners, effectively, hold silver (only JPM on the sly) and private investors, effectively, own it all.

I could spend more time describing how this came about but the main causes were governments (particularly the US) selling off holdings and industry

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adopting more modern processes including the elimination of commodity inventories in favor of just-in-time. Go back 10, 20 or 30 years and the percentage of public investor ownership of the world's inventory of 1000 oz bars would be in the very low single digits at most. Today, by some measures, it's close to 100%.

That is about as dramatic a transformation as is possible and while I saw it in the periphery of my mind for quite some time, it didn't register this clearly until now. So let me say it again □ there's been a complete revolution in the ownership profile of the world's inventory of 1000 oz bars of silver. And while there were predecessor investment vehicles involved in 1000 oz bars of silver (for instance, the Central Fund of Canada), the main accelerant to the revolution to public ownership was the introduction of the SLV in 2006 and similar vehicles that came in its wake.

So let me cut to the chase □ it's one thing to point out the transformation in the ownership profile of the world's inventory of industry-standard silver and a different thing to suggest what it means for future price. I think it is powerfully bullish for future price (he said in the midst of a short term melt down in price). Moreover, in hindsight the ownership transformation had a lot to do with why we ran to nearly \$50 in early 2011 (along with new buying) and nothing to do

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with the sharp drop since then. Silver prices haven't dropped over the past four years or even today due investor selling of real metal either from ETFs or in any other form away from the orchestrated selling of COMEX futures contracts.

At the very least, the fact that the world's inventory of silver almost exclusively rests in the hands of private investors proves beyond a doubt that silver is considered a worthy investment asset □ otherwise investors wouldn't hold it. This reaffirms that silver is the only dual demand industrial commodity and when that demand reignites, it will have a price impact not possible in any other industrial commodity. Record holdings in SLV coincided with and significantly contributed to the price highs of 2011 and will no doubt do so in the future.

The reason that SLV is the Death Star, in position to gobble up more metal as time evolves, is because it makes ownership of silver easy for investors who would never buy the metal otherwise. I know many wouldn't touch SLV for a variety of reasons I understand, but that's different from analyzing how it may impact price. It was no coincidence that the growth in the silver metal holdings in SLV pushed silver prices higher into 2011 and it will be no coincidence when that recurs in the future. Considering how much investment buying power exists in the world versus actual silver that could be bought, it's a question of when not if a crunch develops and I am certain SLV will be central to that crunch.

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The investment demand for 1000 oz bars has and will determine the price of silver in the end and the SLV (and other similar vehicles) is the largest component of potential demand. That the world's inventory of silver is held by an incredibly diverse number of private investors has and should guard against the type of dumping possible in the case of a large uneconomic seller (like the US Government in the past). That investment vehicles like SLV exist where they never existed before still sets the stage for buying ahead.

We've already seen that the silver ETFs were instrumental in the price run to nearly \$50 in April 2011. We've seen that in the subsequent 70% decline in price since the top that not that much metal came out of the ETFs. Now we know that more investment buying potential exists in a financial world somewhat in turmoil and possibly looking for safe havens. We know that silver is such a safe haven and that the investment vehicles exist that make it easier to buy silver like never before. We know now that there has been a dramatic transformation in the ownership profile of the world's silver inventory. And we certainly know that the price of silver has dropped to stupid cheap levels making it a better buy than ever.

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Now on to recent developments and the horrid silver price action in which new five year lows are being set today. The first question that comes to mind is why silver prices are dropping. Clearly, it's not due to massive selling by investors of real silver. That's not to say that we might not see some liquidation in SLV in reaction to the price drop, but it is to say that should that occur, it was not the cause of silver dropping, but a reaction to the drop. It's important to know the difference.

By process of elimination and as is always the case, the price is down because of speculative selling on the COMEX. I did grow concerned that there was massive deterioration in gold as a result of its recent penetration of its 50 day moving average to the upside and that weakness in gold could drag silver lower, even though silver's market structure was much better than gold's. But this week's price action goes far beyond any negative vibes I had.

The important point is still that forces apart from actual supply and demand are driving the price of silver and other commodities. I know that gets old for silver investors to hear and for me to say, but it doesn't make it any less true. Also true is that even the artificial price force of COMEX positioning has its own sick sort of supply and demand factors in that the price will go lower only as long as managed money and other speculative selling continues. When the maximum

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amount of managed money selling is achieved, prices stop falling and reverse, although the rally reversals have been particularly disappointing to date. Yes, the managed money traders appear to be sitting pretty and accumulate impressive open profits along the way, but it still remains rare for them to convert open profits into realized profits.

On Saturday, I wrote how the CEO of Glencore, Ivan Glasenberg, stated in an earnings conference call that he saw no actual supply or demand factors that were responsible for the plunge in copper prices apart from speculative selling, the same as I have concluded. Yesterday, the CEO of one of the world's largest commodity producers, BHP Billiton, responded to a question about demand for copper, iron ore and coal from China, saying that he saw no fall off in demand or build in inventories. Andrew Mackenzie didn't lay the blame for depressed copper prices on the speculators on the COMEX, but if it has nothing to do with actual supply and demand and inventories, then why are prices so depressed?

<http://video.cnbc.com/gallery/?video=3000410779>

I know there is a great chorus pointing to all the things that people just know

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are true about the decline in the price of many commodities, but those in the actual business of producing commodities like copper and silver never point to weak demand or bulging inventories. Always it is the case that among the ultra-depressed commodities that do trade on a regulated exchange, they just happened to have a massive managed money short position near record levels. No surplus of actual material, but a crushing surplus of speculative derivative short positions.

Sometimes, there is an acknowledged actual surplus of supply over demand, as has been the case in crude oil, and excessive managed money selling only adds to downward price pressure. The recent massive selling of 150,000 net contracts of NYMEX crude oil futures no doubt had some great influence in the sharp price decline, simply because it represented more selling than in any other trader category. These are traders considered speculators by the CFTC, yet they are having the biggest influence on price.

It's bad enough when excessive futures speculation causes prices to decline faster and further than an actual surplus might indicate, as is the case in crude oil; but when speculators cause a commodity not in fundamental surplus, like silver or copper, to decline sharply that is so much worse. In the case of silver, underscoring the controlling influence of paper speculators on the price is that

every possible indicator of strong physical demand in the wholesale market, centering on the continued high turnover in metal coming into and brought out from the COMEX silver warehouses. This extraordinary movement is not lying in portraying tight physical conditions, it's just that the message is overwhelmed by futures positioning.

In regards to the continuing turmoil in world stock markets, about the best explanation summarizing conditions came from Jim Grant in a CNBC interview earlier this week. In connecting years of central bank monetary accommodation with the sudden break in many stock markets, he explained that the Fed and others had created asset values that were "mispriced". What else could any market be considered other than mispriced if it were suddenly to erase in days what it had achieved in a year or two, as was the case in a number of leading US stock market indices. What happens from here in the equities markets is way above my paygrade, but there can be little question that there had to be some mispricing, otherwise there would have been no plunge.

The point here is that markets that are mispriced can have sudden and dramatic moves. And the mispricing can be in the form of assets being too high, as appears was the case in stocks, or too low, as is the case in silver. In addition, the root cause of the mispricing can be different. Whereas the

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mispricing of the stock market was due to monetary accommodation and a zero interest rate policy; it isn't a low interest rate causing silver to be mispriced much lower than its true value. The cause for silver's mispricing is clear □ speculative selling in COMEX futures contracts.

So how long can a market stay mispriced? No one could know for sure, least of all me, except to know - not forever. It may seem like forever when the mispricing is in force, as has been the case for silver for the past four years, but I would remind you that mispricing, when it is resolved, gets resolved in a hurry, as just seen in equities. And if an asset class valued in the many trillions of dollars, such as the stock market, can first get mispriced and then get more correctly priced in short order; then an asset class as small as silver (less than \$20 billion for the total world inventory of 1000 oz bars) can get as mispriced to the downside as I contend.

The big difference bet