

The Triumph of Physical<?xml:namespace prefix =
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One of the most important things to do is to step back from something in which you are intensely interested and try to view it in a different perspective. It is also one of the hardest things to do - especially in silver, where the day to day events and price movements take center stage. Throw in potential future changes, like pending regulatory reform, and it's easy to fail to recognize big events that have already occurred.

One thing that has changed in silver over the past ten years is the popular view of it as an investment. While there were always bullish views on silver, there were also many bearish views as well. There were always published reports, back then, that predicted that there was such an abundance of silver production and inventories that the price could not rise. Whether because of the conversion of photography from the silver halide process to digital, or because of the byproduct mining nature of extracting silver from the earth, or because silver was demonetized by the world's central banks, there were regularly published reports proclaiming that a silver investment at \$4 or \$5 would be dead money forever. One wag even claimed that silver was more abundant than cockroaches.

That has changed. It is downright hard to find a genuine bearish opinion on silver nowadays, aside from short-term technical considerations. One big reason, of course, is that silver has been among the very best of investments over the past decade. Anyone still clinging to bearish predictions on silver after the price performance of the past decade would appear foolish. Most that were negative on the price of silver back then have stopped publishing bearish predictions amid the hope such past false predictions will be forgotten. But it's not just the price performance that has blunted the negative price projections; it's also a simple matter of common sense and a more objective review of the facts surrounding silver. I seem to read a new article on silver everyday by fresh names that espouse the virtues of silver. I think this is terrific and proves that the true silver story will come out over time, as I've long suspected. The simple facts dictate that a long-term investment in silver is warranted and the more that people look at those facts, the more inclined they will be to buy silver.

Please don't confuse this awakening to the real facts on silver as an indication that the price is irrationally high, or that any type of bubble has developed. There is little evidence that widespread speculation and over-leverage is present in silver. In fact, the contrary is true. The average investor has no clue about the merits of silver and silver is as far removed from being in a buying mania as is possible. So far, the developing favorable publicity about silver is more talk than action, meaning people are just warming up to the idea of thinking about buying silver, no widespread buying has actually occurred yet.

Even among the big and smart hedge fund operators, the buying has been in gold, not silver. I don't recall hearing of one well-known hedge fund manager making a significant purchase in silver. The important point here is that because the buying by the investment community, small and large, has yet to commence, the bullish impact of that buying has yet to be felt. It doesn't get any better than that. Ask yourself this □ how can silver be priced irrationally high, when notable buying has yet to occur?

If anything, as I have tried to convey, any excessive speculation in silver is on the short side, not the buy side. With the most extreme concentration ever witnessed in a major market, just breaking the downside manipulation in silver will launch the price. If there were any evidence of manipulation on the long side, such evidence would be broadcast from the highest mountains. As it is, the questions about the short side concentration are the ones no one can answer.

Although there is no sign of over exuberance in silver buying by great numbers of the public or in large amounts by influential money managers, there has been notable and consistent grass-roots buying as well as index fund buying (not to be confused with typical hedge funds). The index funds are passive investors who buy silver for cash (not on margin), and as part of a disciplined approach to an overall commodity investment program, mainly through the big silver ETFs, like SLV. The index funds typically devote about 2% or so of their

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entire commodity investment to silver. While that's a small percentage, it's on a very large base, as index funds may control \$200 billion roughly. That equals approximately \$4 billion invested in silver, or close to 250 million ounces at the average prices that have prevailed over the past few years. In total, the amount of silver bought by index funds and others in ETF-type investment vehicles, over the past 3 or 4 years, comes to more than 435 million ounces, as I recently wrote. I also wrote that there was very little real silver still available to buy, relative to the size of the buying in the SLV by index funds and other hedge funds. I'd like to use that same data to make a point that many question me on.

It's no secret that I devote much effort to ending the silver manipulation by focusing attention on the concentrated short position in COMEX silver (and gold). It's also obvious that I don't hide the fact that I am sure that the big short is JPMorgan. This is borne out in various reports from the CFTC and the Treasury Department's Office of the Comptroller of the Currency, as well as from correspondence from the CFTC to various lawmakers. I would not invoke the name of JPMorgan if I did not have substantial documentation. I may be a little crazy, but I'm not stupid.

The question on my mind and many others is if the government is backstopping JPMorgan's big short position in silver (and gold), and whether this means that the manipulation can be extended indefinitely. After all, if the government is somehow involved, in order to protect the dollar or for any other reason, there

is no way it will ever let silver (or gold) rise to a true free market price level. That's because the government has the power to create money and can fund additional short positions from here to eternity. Therefore, any hope that the manipulation can be broken is unrealistic.

Normally, I prefer to avoid what the specific motivations may be that lie behind the manipulation, since that would be impossible to know, at least on a real-time basis. Instead, I focus on the hard evidence that proves there is a manipulation, such as an extremely concentrated short position. But I do admit that, more and more, it appears the government has to be at least aware of the manipulation, if not actually orchestrating it. In other words, maybe they didn't set out to manipulate the price of silver (and gold), but they may now be involved in covering up the existence of a manipulation. I do appreciate that the government would prefer there to be no explosion in the price of silver, nor any attendant scandal associated with a price explosion.

So, the question comes down to what the government, or any other entity, can do to extend the silver manipulation indefinitely. More specifically, can additional short sales of COMEX futures contracts, in any amount, allow the manipulation to exist forever? The answer, in my opinion, is no. It has to do with the title of this article □ the triumph of physical. It's really very simple □ it is possible to short unlimited amounts of paper contracts on silver. But it is not possible to deliver physical silver if you don't have it. Therein lays the key. If

someone has sold enough paper contracts which promise the actual delivery of silver and those sold contracts have depressed the price, at some point buyers will ask for delivery in excess of the seller's ability to make actual delivery. While no one can pinpoint the exact time that will occur, it is certain it must happen at some point.

When, not if, that point in the delivery process occurs, everything changes. My friend and mentor, Izzy Freidman, has always referred to this point as the moment of truth. In an instant, the lie of the silver manipulation will be exposed to all. Among the staunch deniers of the silver manipulation, I've lately heard an advance excuse for why a delivery failure won't be the expose' of the manipulation that it surely is. Their reasoning goes something like this □ the futures markets weren't intended for real delivery anyway, so the regulators can readily change the contract to cash settlement. This would relieve the shorts of their obligation to deliver real metal if called upon to do so by the longs. The shorts would then continue to sell as many contracts short as necessary to depress the price. And everything would go on as if nothing had changed. That, my friends, is nonsense.

Abrogating the most important feature of any legal contract is a contract default. The most important feature of the COMEX silver contract is the actual delivery requirement. That's why all the physical and delivery specifications are spelled out in great detail. The requirement and ability to make and take

delivery is what gives COMEX silver futures contracts legitimacy. Without actual delivery, it would be like trading air. The ironic thing is that the manipulation deniers don't realize that any move to unilaterally convert COMEX silver contracts to cash settlement would be the same as shutting down the silver market on the COMEX, something I've written about recently. It certainly would have the same effect, in that no one in their right mind would ever buy such a contract and would move to markets where actual delivery was assured, such as the SLV.

For proof that any move to cash settlement in a COMEX silver contract would be a clear contract default and the end of trading in COMEX silver, take a look at the respective open interests between the regular physically settled COMEX silver futures contract and the whacky cash settled contract that was introduced more than seven months ago. Regular readers may remember how I lambasted the new cash-settled contract as a bad joke –

<http://news.silverseek.com/TedButler/1238609316.php>

Now, with the passage of time, we can see how successful the cash-settled silver contract has been. In a word, it has been a dismal failure. With the regular physical delivery contract, open interest runs in excess of 130,000 contracts. The cash-settled version has 9 contracts open, but since these are one-fifth the size of regular contract, the actual equivalent open interest is less than two (not 20,000 or 2000, just 2). I don't think the new contract could have been more of a failure if it were intentionally designed to fail.

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My point should be clear. Any move to convert COMEX silver contracts to cash settlement will immediately result in the shutting down of COMEX silver trading, exactly as I have warned. Trying to trick investors by instituting cash settlements on COMEX silver contracts is like putting lipstick and nylons on a pig, it isn't going to fool anyone. It is a truly preposterous idea; one that, if enacted, will destroy the COMEX overnight. The fact that it is even being discussed openly should give you a good idea as to the deep extent of the problem caused by the COMEX silver manipulation. There is no easy way out. It should also explain to you why the paper selling of seemingly unlimited contracts is destined to fail in the end. While I can't pinpoint the exact timing of that end, I can tell you it's much closer than ever before. I can also tell you to make sure you are holding silver not subject to fraudulent bait and switch tactics.

Ted Butler

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