

Dec. 30, 2009 - A Remarkable Year and Decade

A Quick Update<?xml:namespace prefix = o ns =
"urn:schemas-microsoft-com:office:office" />

I wrote the following year-end review several days ago, before the price swoon of the last two days. Therefore, some of the numbers I used will be somewhat off, but the context of the article remains the same. I would like to offer some comments on the current price smack down.

There should be no doubt as to why we are selling off. This is a price rig by commercial interests (most likely JPMorgan) to trip off as much technical fund long liquidation as possible, by driving prices below the most recent lows. It is exclusively a COMEX-related affair. Whether it will be successful remains to be seen. It is both painful to existing investors and beneficial for new purchasers. The more liquidation that takes place, the better the prospects will be for the next rally, which I still believe could be the big one.

It is deplorable that the CFTC sits by and let's this crime in progress continue, but it is also important to recognize that nothing in the real world of silver supply and demand justifies this current sell-off. It should make you angry. If you haven't yet written to the CFTC or your elected officials about their clear misrepresentation in the May 2008 public silver report, perhaps this sell-off might prompt you to do so.

A Remarkable Year and Decade

This is the time of year for reflection and tallying. Seeing as it is also the end of the decade, it is natural to look back on the past ten years as well. Undoubtedly, you have been inundated with one and ten-year retrospectives recently, so I'll confine my thoughts to silver. It's good to look back and review, as it gives you some foundation for looking ahead. I know it's somewhat trite, but it's still true that in order to know where you are going, you must know where you've been. This is particularly true if you write publicly of matters that may impact others' financial condition and investment decisions, as is the case with me.

If you try to impart a long-term investment philosophy, it is probable for results over a shorter time period; say a year or so, to sometimes be disappointing. Not that 2009 was an example of any disappointment; to the contrary, it was an excellent investment year for silver. But if you are off over a ten-year period, some serious introspection is in order. Fortunately, silver investors also had a great decade. In fact, few other readily available investment choices did better than silver or gold. And considering the generally sorry state of economic conditions with which we are ending the decade, the price performance of silver is even all the more telling. Remember how so many claimed silver would be

out for the count in less than robust economic conditions?

Certainly, the popular investment choices for most people, common stocks (including mutual funds) and real estate had an abysmal decade. The S&P 500 is 20% lower than it was at the start of the decade, with the NASDAQ down even more. Some have reported that the past ten years were the worst decade in history for the stock market, calling it the “lost decade.” Any stock investor, were he or she in possession of a time machine, would have chosen silver or gold instead at the start of the decade. And no one needs to be reminded of the investment disaster that real estate has been over the past few years. Almost 25% of mortgage holders are underwater, or owing more than their property is worth. This is a condition that, obviously, does not exist in silver. It seems clear in hindsight that there were price bubbles that burst in stocks and real estate over the past ten years, but there were also many warnings beforehand. It came down to, as it always does, whether one did their homework and used common sense.

Those who invested in debt securities did much better than stock or real estate investors, in that they largely preserved their capital (provided they avoided failed mortgage securities and other frauds). But now with interest rates approaching zero on quality debt, there is little to no room for a decent return on investment capital. Where does a prudent investor turn for a reasonable risk/reward opportunity?

The past decade has been good for commodities in general, albeit with much heart-stopping volatility. But, it is difficult, if not impossible to actually hold most commodities directly. That has always been the appeal of silver and gold. Not only is it relatively easy to hold in one's own possession, new and direct methods of holding professionally stored metal are available. Not only are silver and gold easy to buy and hold, the price performance over the past decade has been spectacular. Instead of being lower or flat, as has been the case with stocks and real estate, silver and gold prices have doubled, tripled or quadrupled, over the past decade, depending upon when one bought.

As a value and contrarian-minded investor, concern must be given that higher prices might render past winners as suspect at some point. But that's where investigation and common sense come into play. Looking back ten years, stocks did seem overpriced, both absolutely and relative to the precious metals. Real estate had not yet hit bubble levels at the start of the decade, but had done so by mid-decade and became overpriced on every legitimate absolute measure and relative to the precious metals. Neither stocks nor real estate seem to be in a bubble currently, but I am unsure how they will outperform silver over the next decade, given the fundamentals. And for safety of principal and appreciation potential, I'd rather hold silver than any debt security or bank deposit.

If the past decade was good for silver, the past year was also remarkable. Not just on an investment performance basis, but for what we learned about silver over the past year. That's the important thing to me, as an analyst – what did we learn that we didn't know before? And how will that help us in the future?

Of course, it would be wrong to understate silver's price performance over the past year. As I write this, we are up \$6.30 an ounce this year, or more than 55% from the close on Dec. 31, 2008. This is about double the impressive 26% return on gold, which had a well-documented record year. Here's an interesting observation that I haven't seen mentioned elsewhere. The 2009 increase alone in the price of silver was larger than the actual price at the start of the decade. I have long predicted, and still stand by my prediction, that we will soon witness a time where the daily increase in price will exceed the total price back then. And maybe even the total price today.

To be fair, we did come off an absolutely horrid year for silver in 2008, when prices fell almost 25% (gold was up around 5% in 2008). But that was a very unusual year, in which the big short manipulators pulled out every trick in their bag to cause liquidation of leveraged silver long positions, particularly in the OTC market. It was this giant liquidation of technical long positions and silver/gold spreads in 2008 that paved the way for the outsized silver gains this year. The good news is that, in spite of a very large concentrated short position, there doesn't appear to be an overly excessive technical long silver position

currently. Also, the big long silver/short gold spreads liquidated in 2008, do not appear to have been reestablished and, therefore, are not at risk of liquidation now.

So what were the important silver lessons of 2009? Learning is a very personal experience, so here's what I learned over the past year. Actually, the revelations of 2009 were more confirmations of some strongly held convictions that I previously held, including confirmations from unusual sources. But there was one new and important revelation – the identity of the big COMEX silver and gold short.

Actually, the confirmation of JPMorgan Chase as the big short position holder in COMEX silver and gold futures was first revealed in late 2008, but it wasn't until 2009 fully evolved that this was accepted as common knowledge. Data from the CFTC'S Bank Participation Reports (starting in August 2008), the Treasury Dept's OCC Reports, and correspondence from the CFTC to various lawmakers identified JPMorgan as the big short. (The subsequent removal of key data starting in the Dec 2009 Bank Participation Report by the CFTC to shield the identity of JPMorgan has come too late). Additionally, I personally wrote to the CEO of JPMorgan on many occasions, offering to cease identifying JPMorgan as the big short and silver manipulator if he would state his bank wasn't the big short. That denial never came.

Simply stated, JPMorgan inherited the giant silver and gold short positions held by Bear Stearns when it was rescued from bankruptcy and has managed those short positions to this day. It is clear to me that JPMorgan is the silver price manipulator.

For many years, I was unable to definitively answer the question most asked of me, namely, who was the short manipulator(s) in silver? I was unable to answer because I did not know for sure and I prefer to be very careful about what I write, because I know I write some pretty controversial stuff. I knew it was one of 4 large traders on the COMEX, from the weekly Commitment of Traders Report, and had a pretty good idea of the likely candidates, but I could not confirm the actual identity of Mr. Big. But that changed in late 2008 and during 2009, because of incontrovertible public evidence.

The identification of JPMorgan as the big silver and gold short is important for a number of reasons. It confirms just how big the silver short problem is. JPMorgan is at the top of the food chain. There is no one else left in to pass the short hot potato to, save the US Government itself (which is probably the real short holder anyway, on a de facto basis). To me, this is the best news possible, as it means this is the end of the line for the silver manipulation. This silver short position and manipulation stops here, with JPMorgan and/or the US

Government. It gets transferred to no one else. It may mean the end of the COMEX, as we know it, but it definitely means that the silver manipulation will soon end. Let me stick my neck out here and be more precise – the silver manipulation, because we know so much more about it, will end in 2010. Make sure you are positioned for that by being as heavily invested in silver as possible.

The other confirmations of 2009 were almost as dramatic to me. Over the past few years, I predicted and wrote of the coming investment boom in silver, as more investors learned of the incredible real silver story. As that story continues to be learned, investment demand has boomed. 2009 will go down as having the largest silver investment demand in history. Some 150 million ounces have flowed into the various public silver investment vehicles this year, more than 20% of total world mine production. Prior to 2006, this ETF demand did not exist. In 2009, the US Mint will sell roughly 30 million ounces in silver coins, primarily Silver Eagles. This is, by far, the most the Mint has ever sold, even though they could have sold more if it were not for production constraints. The amount of silver sold by the US Mint in 2009 is three times the amount sold annually for the past decade.

The amazing thing is that the silver investment demand boom to date appears to be diverse, with no single big sponsor. In the case of gold, which is also experiencing an investment boom, at least there has been some prominent

Dec. 30, 2009 – A Remarkable Year and Decade

and visible sponsors, in the form of some large and very well-known hedge fund managers and central banks. In silver, no big purchaser has stepped forward. Yet silver's price performance doubled gold's this year. What the heck happens to the price of silver when the big boys start to buy?

Another important milestone in 2009 was the confirmation that precious metals' leasing/forward selling was the bad idea I had maintained it was for more than 12 years. My first public writing on the Internet concerned this issue and Barrick Gold's involvement in it. The announcement this year that Barrick was finally abandoning this wasteful practice was long overdue, particularly for shareholders who experienced a \$10 billion loss for management's blunder.

The biggest event of 2009 was also something very personal to me. It was the confirmation of an issue that I had advanced for more than 20 years, namely, legitimate speculative position limits. I always viewed the lack of position limits in silver futures as what enabled the short side manipulation. I started writing to the CFTC and the exchanges about this matter in the 1980's. I was always rebuffed and dismissed. With the appointment of the new chairman of the CFTC, Gary Gensler, and the release of the Senate Wheat Report in mid- 2009, the issue of position limits experienced a rebirth. The new debate on position limits was in no way intended towards silver specifically, but because COMEX silver cried out for position limit reform more than any other commodity, it was easy for me to make the case for a genuine reduction in the position limits in silver,

Dec. 30, 2009 – A Remarkable Year and Decade

along with the abolishment of phony exemptions to position limits. Hundreds of you agreed and more public comments were received by the CFTC for position limit reform on silver and gold, than on any other commodity.

In spite of the tremendous outpouring of public sentiment for proper position limit reform in silver, no proposal has been forthcoming from the CFTC. I'm starting to believe that no reform will ever come forward for silver, just like there will ever be any resolution to the forever silver investigation by the Commission. Let me rephrase that ☐ I'm starting to feel that the market will resolve the manipulation and concentrated short position in silver before the regulators move to end it. I've always considered this possibility; it's just that I now think it's probable. I still think Gary Gensler is an honorable man and dedicated public servant. I don't think he's a dupe for Goldman Sachs or JPMorgan. I just think now the silver problem is too severe for him to move against it. He can't defuse the bomb with acceptable collateral damage. He will let the market take its course and try to clean up afterwards. I don't know what I would do differently in his place, but then again, I have never taken an oath of office and swore to enforce the law. More on this in the near future.

In summary, 2009 and the past decade were remarkable for silver, both performance-wise and in lessons learned. But more than anything else, I am convinced that the next decade and 2010 will be even a more remarkable. Perhaps next year will be the most remarkable year for silver in history. If I'm

Dec. 30, 2009 - A Remarkable Year and Decade

correct, you will want to make sure you've backed up the truck and loaded the boat.

Ted Butler

Dec. 30, 2009