

Some Surprises <?xml:namespace prefix = o ns =
"urn:schemas-microsoft-com:office:office" />

If you look back long enough, invariably you will recognize that there were some developments that turned out almost exactly as you expected and some that surprised you completely. Just like I believe that man learns more from failure than success; I believe we learn more from what surprises us than that which turns out as expected. When future events turn out as we expected, generally we chalk it up to our own superior foresight and intelligence and learn little that is new. With the unexpected outcomes we are forced to confront why we missed them and we must factor that into future thinking. Surprises make you think.

I'd like to look at silver over the past 5 or 10 or 25 years in terms of what turned out as expected and what surprised me. Obviously, since I think there is more for me to learn from the surprises, I'll dwell on that. In the most expected category, I would lump the overall price performance in which silver basically outperformed every other investment over the past decade. There weren't that many pundits pounding the table for silver 10 years ago, certainly not as many as today. Past performance is never a guarantee for future success, but at least it offers a measurement for past analysis. If silver had been near the bottom of the performance list of the past decade, I suppose I might not still be writing about it today.

Another thing that did not surprise me has been the growing investment demand in silver for the first time in many decades. With more investment money and more potential investors looking for investment alternatives and connected electronically than ever before, it's hard to see how it could have been otherwise. Certainly, that more are writing about silver today than ever before suggests more will be exposed to the real story and that will stimulate investment demand.

Past performance aside, silver still looks set to outperform in the years ahead, although I make that statement recognizing full well that the price of an asset increasing does not make it a better investment. After the many fold increase in the price of silver over the past decade, what is it that makes silver a great investment at this time? The answer, I believe, lies in those developments that most surprised me. At the top of the list is that, despite such a strong upside move in price, the silver manipulation is still in force. If you had told me prior to the run up to almost \$50 in April 2011 that the price had increased by 12-fold from the lows of the decade and that the silver manipulation was still in effect I would have fallen off my chair. I had always assumed such a large price increase could only occur because the downward manipulation had ended. To witness silver advancing, as expected, so sharply from the four and five dollar level with the manipulation still intact is something I think about constantly. As I've said, we learn more from that which surprises us than from the expected.

The first thing I think about is if I've been wrong about my allegations of a downward silver manipulation. Believe it or not, I think about that incessantly. I suppose it's possible that I could have pounded on the table so correctly about silver for so many years and have been wrong about it being manipulated. After all, in many hundreds of articles I introduced facts and reasons to buy silver away from the manipulation. I don't think it is possible that I could have been wrong about everything considering how things have turned out, but what about the manipulation specifically? Objectively speaking, the evidence of a silver manipulation has never been clearer.

Manipulation is not determined by price; it is determined by market structure. Price is like a thermometer; it records and measures the heat, but is not responsible for temperature changes. If one or a few related traders become such a dominant force on one side of a market, either on the buy or sell side, so as to impact the price, then that market can be said to be manipulated. There's even an objective measure of such dominance in the level of concentration that exists. Concentration in this regard is the same as the degree of monopoly that may exist in any industry. The federal regulator, the US Commodity Futures Trading Commission, measures the degree of concentration closely and publishes data for all regulated markets weekly. This data in the Commitment of Traders Report indicates that the degree of concentration or monopoly on the short side of COMEX silver is more extreme than it has been in years and more

extreme than in any other market. Since concentration is the true measure of manipulation and not price, I can only conclude that the silver manipulation still exists despite the higher silver prices. Further, other CFTC data and correspondence indicates that the giant US bank, JPMorgan, is the largest holder of the concentrated silver short position. This makes it easy for me to allege that JPMorgan is the prime silver manipulator.

So what does this mean and what can we learn from my surprise that the silver manipulation still exists despite the outsized price gains to date? The biggest takeaway is that the largest price gains in silver are yet to come. That's because all manipulations must end, particularly one that is becoming so increasingly apparent. When the yoke of manipulation is finally lifted off the price of silver is when we can start to think of when to sell. Until then, all thoughts should be of accumulation. The surprise is that the silver manipulation hasn't ended yet, not that it won't end. While it still exists you are being presented with the opportunity of a lifetime.

Another surprise for me is just how widespread the silver manipulation story has advanced, especially considering that it is still in force. When I first discovered that silver was manipulated on the COMEX more than a quarter century ago, when I tried to advance that finding I was looked at as freakishly as having three heads. But the flow of events over the years has convinced a growing number of observers that silver is indeed manipulated in price. It is that growing

awareness that will contribute to the manipulation's termination.

The last surprise I'd like to discuss is how well gold has performed relative to silver up until this point and what that portends for the future. I know this is a sensitive topic for many in the precious metals world, so I will try to tread objectively. I've always felt, given all the facts, that silver would vastly outperform gold in the end and I feel stronger than ever that this will still be the end result. Certainly, by most objective measures, silver has outperformed gold over most time periods, so few should regret having made a switch to silver from gold at this point. Over the long term, I'm convinced those making the switch will celebrate, even though silver, as the most manipulated market of all, will be subject to sharp periodic takedowns relative to gold (like today). But I do admit to being somewhat surprised by how strong gold has performed relative to silver up until now.

There have been a fair number of articles and analyses recently published predicting future prices for gold and silver. Most of these predictions call for higher prices, but not all do so. As an analyst myself, I'm less interested in the final predictions than I am in examining the facts and reasoning that substantiate the predictions. Call it an occupational obsession, but I try to measure each commentary as objectively as possible, hoping to learn as much as I can. But there is one angle that I haven't seen discussed and it is this angle that I am most concerned with.

There is a big difference between a thousand and a million; a thousand times difference, three zeroes to be exact. Likewise, there is a big difference between a million and a billion and between a billion and a trillion; those same thousand times or three zeroes in each case. It is this difference that comes to mind when I compare gold and silver. The 5 billion oz of above ground gold in the world is worth \$9 trillion. The 1 billion oz of industrial grade silver bullion in the world is worth close to \$30 billion. That means that all the gold in the world is worth 300 times more than all the industrial grade silver bullion in the world.

I know that this is not an even-up comparison, comparing all the gold versus only some of the silver, but I think it is a realistic comparison when contemplating the future relative performance of gold and silver. Gold is not considered an industrial commodity (although some small percentage of gold is consumed industrially). Silver is very much a vital industrial commodity and its future price performance must take this usage into account. As and when the silver industrial users around the world panic and move to acquire silver they will do so in the industry grade form of 1000 oz bars. This is the same form held by the various silver ETFs, meaning that the silver users will be in direct competition with investors for this form of silver. Since there are so few industrial users in gold, it is hard to contemplate how a similar competition can occur in gold.

Additionally, the \$9 trillion total value of all the world's gold has created an asset class that rivals all the other big world asset classes, like stocks, bonds and real estate, as I have written recently. Twelve years ago, at the bottom of the gold price (\$250), all the world's gold was worth around a trillion dollars. It is the nine-fold increase in the market capitalization of gold that figures prominently in my future assessment of gold prices. I want to be careful to note here that gold has moved higher over the past decade for many reasons and those reasons can propel the price higher still. Many are projecting the price of gold to double or triple or more from current levels. If those projections turn out to be realized that means that the total value of gold must also double or triple from the current \$9 trillion level. I have trouble with that.

I suppose, for instance, that world government printing presses could cause the value (price) of everything to soar through inflation, but that's a separate issue. Over the past twelve years, the value of all assets have not risen proportionately and I am inclined to believe that gold had some special factors behind its price rise, including its own previous price manipulation through shorting and leasing and central banks going from dishoarders of gold to accumulators.

It bothers me that I see little or no reference to the \$9 trillion worth of all the gold in the world in the many market analyses I review. It is a massive amount of worth that must, in my thinking, serve as a drag to further price gains at

some point, either from here or from higher gold price levels. And while the total value of all the world's silver bullion (1000 oz bars) has grown as well, because that value is still in the very low tens of billions of dollars and not in the trillions of dollars, that tells me silver prices will not be constrained by the same headwinds that I see in gold. Throw in the coming industrial silver users panic and I'll give you in advance what will most surprise me years from now □ silver not vastly outperforming gold.

Of course, what will occur in the future is not the same as what is occurring this week, as silver has been crushed relative to gold thru today. This crushing is not accidental, but is as intentional as it gets. There are some things that I can say about this silver takedown without fear of contradiction, including how and why the price has been taken down, as well as who is responsible for it. When you think about it, that's quite a lot.

The negative market structure, as defined by the Commitment of Traders Report (COT), is why silver prices are lower this week. In fact, there is no other plausible explanation. The technical funds were heavily net long and the commercials were heavily net short. The commercials, with almost no possible cover story, have rigged the price lower to trip off tech fund selling, just like has occurred on every other occasion of sudden and sharp silver price spikes down. Since JPMorgan is the biggest silver short on the COMEX, they are most responsible for this crooked market behavior, but there is clearly other collusive

December 19, 2012 - Some Surprises

commercial activity involved. The proof of all this is in the COTs which always show that the commercials are always net buyers on big down days.

Sharing special responsibility is the CME which approves and condones the manipulative price smashes because they benefit its principle constituent, JPMorgan. It's hard to imagine a stronger criminal enterprise than the CME and JPMorgan. All this is made possible by that shameful excuse of a market regulator, the CFTC. There's a special irony that today the agency announced another record setting settlement against UBS for the LIBOR manipulation just as the latest silver price smash is in full force. While I think it's good that the Commission has cracked down on the banks involved, I can't help but be suspicious in comparing the CFTC's performance in LIBOR versus silver. How could the agency be so good in LIBOR and so darn pitiful in silver? What I think I do know is that the agency's reputation is suffering more from silver than it has benefited from LIBOR. Considering the many thousands of public complaints that the agency has received because of the silver manipulation and the lack of resolution therein, I will be very surprised if that reputation is ever restored.

What I can tell you is that silver is at the center of the universe when it comes to matters of law and manipulation and prospective price gains over the long term. What I can't tell you is how far will JPMorgan and the other collusive CME commercials drive the silver price lower, except as far as they can. Hopefully, I have conveyed the risk of a sell-off for the very reasons it has occurred and you

December 19, 2012 - Some Surprises

are not shocked and dumbfounded that it has occurred once again. More important is to recognize that sell-offs make the market structure better, although I am not trying to minimize the pain of intentional lower prices. This manipulated silver market is a national disgrace for which those responsible should be locked up. If you feel so inclined, please direct your feelings to the regulators who are looking the other way, as it is your right and responsibility to do so.

Ted Butler

December 19, 2012

Silver - \$31.15

Gold - \$1669