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

The last week of 2011 was a rough one for gold and silver, as has been the last quarter of the year, although both markets bounced off the extreme lows of Thursday morning. For the week, gold declined $41 (2.5%), while silver fell $1.25 (4.3%). For the year, gold ended 10% higher, its 11th straight year of advance. Silver ended the year down 10%, its first down year since 2008. The big price damage, of course, came largely in the last three and a half months of the year, when gold fell almost $400 (21%) from the highs of early September and silver plunged by roughly $16 (38%). As was the case in the May 35% price plunge in silver, both epic silver price declines occurred over a matter of days, something that has never occurred in a world commodity.

As a result of silver's underperformance for the week and year relative to gold, the gold/silver ratio widened out to just over 56 to 1. In addition to the wild ride that both metals took investors on this year, the ratio was also quite volatile. After starting the year at the 45 to 1 level, the gold/silver ratio tightened into 32 to 1 as silver approached $50 at the end of April, only to widen out as silver collapsed relative to gold into year end. On a longer term perspective, from the extreme low prices in each over a decade ago, silver has fully matched gold's six-fold advance through year end. Volatility, a key theme of mine for quite some time, doesn't look to be going away anytime soon. In a moment, I'll try to discuss the driving factor behind past and future price volatility. Another regular theme has been the suggestion to switch gold into silver and deploy fresh investment funds into silver on the big decline of the last quarter. That remains unchanged.

I'll stick to the usual format in these weekly reviews before trying to reconcile what transpired over the last few months with what may ly ahead. Turnover in silver inventories at the COMEX-approved warehouses remains frantic, with total inventory levels climbing to over 117 million ounces, up from 108 million over the past few months. As I've indicated previously, I am more interested in the turnover rather than the total level of COMEX silver inventories. That's because there is too much we can't know about why COMEX inventories rise or fall. Rising or falling COMEX inventories don't necessarily imply even a change of ownership. For instance, owners of silver can move that silver into or out from the COMEX warehouses to create the impression of surplus or shortage when neither may be true. Yet, despite not knowing the real reason behind a rise or fall in total COMEX inventories, it is natural to assume rising inventories denote surplus. I can't help but to be suspicious because I am convinced that silver is the most crooked market in the world and those commercials responsible for the manipulation have the ability to move silver into the COMEX at will. The turnover issue was always different for me because the heavy turnover left little room for a more plausible explanation than things were tight.

The price plunge in silver this week and before has had a remarkably small impact on the holdings in the big silver ETF, SLV, or other publicly disclosed vehicles holding silver. We did witness a big withdrawal from the SLV on the price plunge in May, when 50 million ounces or more were liquidated from the Trust. On the price plunge starting in September, hardly any silver has been liquidated from the Trust. More than anything else, this shows that ownership of real silver has changed little during this price plunge and that we must look elsewhere to find the cause of the decline. As I hope to explain in a moment, we need look no further than changes in the structure of COMEX futures, as delineated in the Commitment of Traders Report (COT).

Sales of Silver Eagles from the US Mint petered out as the year drew to a close with no new sales reported for the week. I wouldn't be surprised to see one last update next week. For the full year, the Mint reports almost 40 million ounces of Silver Eagles sold and 1 million ounces of Gold Eagles sold (all sizes). Despite the cooling off into the year end, this is the most Silver Eagles sold in history, as well as the most silver bullion coins sold compared to gold ever. Just in ounces of Silver Eagles sold (no proofs or commemoratives); the US Mint produced and sold more silver than was mined in the US for the year. According to the Silver Institute, the US is the seventh largest silver producing country in the world. I can't resist pointing out that retail investment demand for Silver Eagles stands in stark contrast to silver price performance.

This week's COT s were underwhelming in that little change was reported for gold and silver. Of course, the big price moves in each occurred on Wednesday and Thursday, after the Tuesday cut-off and it's hard not to imagine a substantial further reduction in the total commercial net short positions in both gold and silver.

In silver there was a slight further reduction in the total commercial short position this week of 700 contracts, to 14,100 contracts. This is another new low in the headline number for the decade. The raptors (the smaller commercials away from the big 8) bought 1800 contracts, increasing their net long position to 22,700 contracts, another multi-year bullish extreme. The big 4 (read JPMorgan) sold 1100 contracts of new shorts, increasing their concentrated net short position above the record low position of the prior week. Also near record lows are the reciprocal net long positions of the large speculators and the smaller non-reportable traders. This week's report also confirmed further new shorting by the managed money tech funds and I sense these traders were the big sellers in Wednesday's and Thursday's big decline.

I'm sensitive to any increase in the concentrated short position of the big 4 and JPMorgan, because that position is at the heart of the silver manipulation. However, I'm still of the mind that JPMorgan wants out of the silver manipulation business that it inherited from Bear Stearns and this week's increase is more of an aberration than a major change in JPM's move to close out silver shorts. I'd peg JPM's short position in the 14,000 contract range, with greater clarity provided by next week's COT and Bank Participation Reports. This still represents a substantial reduction from the roughly 24,000 contracts that JPMorgan held short as of the last Bank Participation Report as of September 6 (which I'll discuss further in a moment).

I have long held that JPMorgan wants out of the silver manipulation and would reduce their concentrated short position in silver over time, never to go short again. I realize never is a very long time and I could easily turn out to have been wrong. But so far, JPM is playing according to my script. This is not in my control and will be determined by JPMorgan itself. If they do substantially increase their short position on the coming silver price rally, we'll have to deal with it. Up until now, JPMorgan seems to be immune to lawsuits and the widespread knowledge that they have been the big silver short crook. Being publicly and consistently labeled as a manipulator is generally not the designation sought by a large financial institution and JPM must be growing tired of it. The simplest solution for not being labeled a manipulator is to stop manipulating. JPMorgan is better positioned to quit the silver manipulation scam now than any time in the past four years.

In gold, the total commercial net short position declined by 600 contracts, to just under 164,000 contracts, the lowest level since Oct 18, when the position fell to just less than 160,000 contracts. The bottom at that time did produce a fairly quick $200 rally in gold. Going back further than the Oct 18 COT low reading in gold, the level this week is the lowest level since May 2009, when gold traded below $900. If my hunch is correct, the selling by speculators in gold on Wednesday and Thursday may have pushed the gold commercial short position to levels even lower than back in late 2008 to early 2009. You can't call such gold readings anything but bullish. For COT mavens, the gold raptors accounting for 1900 contracts bought, increasing their net long position to 11,600 contracts. The big 4 and big 8 sold the difference.

I know it gets old hearing that the silver COTs are spectacularly bullish or that the gold COTs are also bullish, only to see prices decline further. Unfortunately, that's the way it works at times when the structure reaches historically extreme readings, as is the case currently. Once we do reach bullish extremes (low commercial net short levels), it is not impossible to establish even lower commercial net short levels. That's what has been happening, especially in silver. There is no way (that I am aware of) to anticipate the ultimate extreme reading in advance. If you rely on the COTs, as I do, it's something you have to live with. Buying on a bullish reading, only to have the reading become more bullish is an occupational hazard. The alternative, I suppose, would be to buy on a bullish reading and get out if it becomes more bullish, which doesn't make much sense to me. Please remember that the COTs are for longer term positioning, not quick in and out trading.

I received an email this week from a subscriber that I feel touches on what may be on the minds of others. I thought it might be constructive to reproduce it in its entirety and try to answer it here. It came in late Wednesday evening as silver prices were plummeting. I have fallen a bit behind in answering emails, so please get back to me if I haven't answered.

I can’t put into words what I’m feeling right now. I have been reading you for many years and still do believe that when compared to fiat money, precious metals are better. The problem as I see it now is that the manipulation in gold and silver are sanctioned by our government in order to discourage citizens from choosing the metals instead of investing in our country’s debt. The CFTC, in my opinion has been gaming us. Bart Chilton is the good cop along with Gensler against the other commissioners who are the bad cops. Nothing changes. We (investors) have been for too long just door mats for the powers that be to walk all over us. My fear is that if, or possibly when, market forces overcome the manipulation the govt. will just confiscate our resource. I really question if we can win. I doubt we can win

UNLESS somebody has the gonads to step up and organize a way to fight them. Someone in the know has to take leadership and formulate a strategy to take on these crooks. There has to be a way to entice some insiders who would have access to evidence that would prove beyond doubt that a massive crime has/is taking place. I had hoped you would at least discuss this in your circle of peers and that something would get going. You had briefly mentioned a RICO action but nothing more on it.

December is supposed to be a good month for metals. Instead it is a disaster. Since Aug. I am down over 70k. I keep reading you and hope that the next week is better but am instead hit with more losses. I do not know how much longer I can keep this up without giving up and investing in energy or something else. I would appreciate some real thorough thinking on your part as to all aspects of this situation and lay it out.If your previous

thinking has been skewed by forces that you haven't considered enough before please have the fortitude to tell us what you see.

Thanks,

Dave L.

Dave raises some important questions that deserve answers. First, no one can be more disappointed than me with the failure of the CFTC to come even close to protecting the public and ending this silver manipulation. Their failure has been monumental. My disappointment extends to Chairman Gensler and Commissioner Chilton, both of whom I have continuously praised and identified as the good guys.

I know that many feel that the government is intentionally discouraging investors from gravitating towards gold and silver by looking the other way as the manipulation continues. Perhaps that collective feeling is correct, but I have a slightly different take. I think there are some other factors behind the CFTC's profound failure to do their job. This silver manipulation has been going on for so long that should the Commission move against it now, it would raise the question of where the heck have they been all along? Additionally, JPMorgan and the CME Group are so powerful and entrenched that the CFTC feels they are too big to take on (too big to sue). Finally, I believe there is a genuine worry on the CFTC's part that any action against the crooks might have a major disruptive impact on the financial system.

That might not sound much different than the overt government involvement suggested by many, but it is different to me. I think the CFTC is aware of the ongoing silver manipulation (how could they not?) but is stymied by how to defuse it quietly. I think the manipulation is on a course to end because JPMorgan is reducing its short position dramatically and that the Commission may have set that wheel in motion. But I also agree that it is outrageous that so many innocent investors are still being sacrificed as the manipulation may be ending.

As far as the issue of confiscation, that is not a major concern to me at this time. Governments, particularly the US Government, are reactive, not proactive. I don't think, from my half-century of observation, that confiscation is being planned. Maybe someday under sky-high prices and rampart physical silver shortages we might have to worry, but life is too short to worry about things that far in the future. Besides, such a time would seem to be a good time to sell (which would eliminate worries about confiscation).

What to do about all this is Dave's on-the-money question. The correct answer is always to do the best we can. I can't turn to my peer group, because I don't have a peer group. That's because I am a loner. I'm not a social misfit (I believe); it's just that I'm highly independent and think and write for myself. I'm not a lawyer (so I can't sue anyone) and am not an organizer. I'm an analyst. That said, I stand ready to assist in any lawsuit or call to action. I view my role as an educator on the silver manipulation. On that basis, I think I've done a pretty good job. I'm not given to self-praise, but I doubt there would be any public knowledge of the silver manipulation and JPMorgan's role in it were it not for me. There certainly wouldn't have been any CFTC investigations over the years if I had not instigated them.

I think the best thing to do is what we have been doing, namely, holding silver and not letting up on prodding the Commission and others to do the right thing. Not only have I not changed any of my previous thinking (except as the facts dictate), but the basics, such as silver is manipulated in price and destined to climb much higher, are held stronger by me than ever before. Losing money stinks and I can tell you with little fear of contradiction that based upon the amount of dollars invested, no one loses or makes more money in silver than I do. That's why I try to stay away from giving anyone specific investment advice and try to stick with the facts and reasoning behind my analysis. I promise to disclose if I change my mind.