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

As I indicated previously, many of you have asked a variety of questions about silver Exchange Traded Funds (ETFs) in general and, particularly about the biggest silver ETF, SLV. I'm guessing that many of your questions were generated by my continued criticism of short selling in the shares of SLV. The questions ranged from concerns of safety to possibly switching to competing silver ETFs. Since I try my best not to give investment advice on specific securities, I thought it might be useful instead to offer a more comprehensive review and outlook for SLV and silver ETFs in general. Since this is intended to answer your questions, this is fair warning that this is my take and necessarily subjective in nature.

A precious metal ETF, for the purpose of this article, is a security that trades just like any stock trades, but is backed with a specific amount of metal for each share issued. The idea of a security holding metal is not new, as the Central Fund of Canada (CEF), a gold-silver hybrid, has been around for half a century. Being a "closed-end" fund meant that new CEF shares could only be issued and new metal purchased with new underwritten offerings. It also meant that existing shares would trade with a premium or discount to net asset value. Seven years ago, a new gold-only security was introduced as an "open-ended" fund, meaning the shares would trade at net asset value (minus expenses) and new shares and metal could be created or redeemed daily. This first really big precious metal ETF was the gold ETF, GLD, which began trading in November 2004, when gold was trading around $450. Seven years later, the GLD has grown to be among the largest ETFs of all, holding more than 41 million ounces of gold, worth more than $70 billion. Since GLD proved to be so popular in the investment world, it wasn't long before other gold ETFs were introduced, including a silver version.

Barclays Global Investors announced its intention to launch the silver ETF, SLV, in mid-2005; when the silver price was around $7. By the time SLV actually started trading in April 2006, the price had almost doubled to $14. Over the past nearly six years, the Trust has come to accumulate over 310 million ounces. To that, add another 300 million ounces accumulated in other silver ETFs and investment vehicles, most of which were created due to the success of SLV. All told, some 600 million ounces have been accumulated by the combined silver ETFs. Please keep this amount of silver bullion in perspective; it represents roughly 60% of all the silver bullion thought to exist in the world.

From roughly no ownership prior to 2006 (save CEF's 30 million oz), to representing 60% of all the world's silver bullion – the significance of this combined silver ETF accumulation of metal on the price cannot be overstated. At current prices, these 600 million ounces are valued at $20 billion. As way of comparison, the total value of gold ETF holdings are now at close to $150 billion. But the real comparison lies in the relative percentage of total bullion held by all silver ETFs versus that held by gold ETFs. Even though the dollar value of gold ETF holdings is 7.5 times greater than the value of silver ETF holdings, the gold ETF holdings of 80+ million oz represent only 2.6% of total gold bullion world inventories (3 billion ounces), compared to 60% in silver. Stated differently, the percentage of relative ETF accumulation compared to all bullion available is 23 times greater in silver. Why?

The answer is clear to me – there is a much greater need to have silver stored professionally than there is for gold. That's because you get a much greater physical weight and bulk with silver than you do in gold. Because the price of silver per ounce is less than 2% of the price of gold per ounce, the physical volume for the same dollar amount of each is 50 times greater with silver than for gold. For example, $100,000 in gold represents less than 60 gold ounces, or about 4 lbs. Most folks don't need professional storage for 4 lbs of gold. But in silver, $100,000 represents more than 3000 ounces, or more than 200 lbs. Most folks would need some professional help storing 200 lbs of anything and even more help with larger amounts. Formerly, you used to have a much greater storage problem for silver at lower prices, but it's still largely true that you get too much (bulk) for the money with silver. Don't take this as you get too little gold, as that is not my intent. I'm just explaining why I think the world's silver ETFs have garnered an extraordinarily large percentage of the all the silver bullion in existence. And I would expect that trend to continue.

It was the ease and convenience of buying physical silver in a stock market form that accounted for the phenomenal growth of silver ETF holdings. While that growth has been interrupted this year due to incredible silver price volatility, the convenience factor still exists and I have no reason to believe that silver ETF accumulation won't resume in the future as the world adjusts to the price volatility and continues to learn the real silver investment story. Some might say that the large size of silver (and gold) ETF holdings represent a potential supply overhang, but I am more convinced that these holdings are more or less likely to mirror the pattern over the past 5 or 6 years, namely, more of a "ratchet" effect in which accumulation of metal dries up during periods of price weakness or volatility and increases on price strength. I think most silver and gold investors are long-term oriented and are more inclined to hold or add to positions over time.

Since the SLV holds more than half of the 600 million ounces in all silver ETFs, it gets more attention than other ETFs, and rightly so. That attention can often be negative (aside from my short selling complaints). At least on the Internet, there is a segment of commentators very distrustful of gold and silver ETFs, especially SLV and GLD. This distrust seems to center on whether these ETFs hold the actual metal they claim to own. Certainly, the skepticism is fueled by the involvement in these ETFs by financial institutions alleged (by me and others) to have manipulated the price of silver. For instance, the SLV's custodian (keeper of the metal) is JPMorgan. Because of the distrust, many commentators wouldn't touch the ETFs with a ten-foot pole and proclaim that to their readers. Generally, I don't share that distrust and skepticism of the SLV. (Apart from the short selling of its shares).

I have looked closely at the reasons why the skeptics distrust the SLV and have always come away not sharing that distrust. I can't guarantee it personally, but I believe the SLV has the silver it claims it has. Knowing that silver needs to be professionally stored more than gold, for years prior to the SLV I wrote what you must insure that real metal was held in any professional storage program. Since the industry standard for silver was in 1000 oz bars and each bar had a unique weight, hallmark and serial number, I advised that holders should always have that specific information to be sure there was real silver being stored for them. No weights and serial numbers, no silver. I applied that same standard to the SLV.

As it turned out, when the SLV was first issued, the sponsor of the Trust at that time, Barclays, didn't publish the serial numbers, weights and hallmarks on the bars of silver held. But much to their credit, after I wrote that they should do so, Barclays, in fact, did begin to publish all the data. Now maybe it was just a remarkable coincidence, and my article had nothing to do with Barclays' change of heart, but who cares? Where they formerly didn't publish the data, they started to do so. http://news.silverseek.com/TedButler/1193732279.php http://news.silverseek.com/TedButler/1199736334.php As an analyst, you must strive to be objective. Barclays publishing of the bar data meant to me that the bars were there. I suppose everything in the world could be a lie, but you have to draw the line somewhere, otherwise you walk around very paranoid. In reality, posting the serial numbers and weights of bars that didn't exist is not how big financial firms usually behave.

As far as distrusting the SLV because JPMorgan is the custodian of the metal in London, I would point out that JPMorgan has owned one of the world's largest depositories for precious metals in London for quite some time before the SLV. JPMorgan was the SLV custodian from the get go, back when the Trust was first announced in 2005. That was three years before they acquired Bear Stearns' giant concentrated short position on the COMEX and when they began to be accused by me of manipulating the silver price. That timeline alone would seem to indicate that JPMorgan's role in storing silver for the SLV is separate from their role in manipulating the price of silver by virtue of their concentrated silver short position on the COMEX. The distrust of the SLV because of JPM's involvement appears to me to be a case of guilt by association. Maybe someday I will come to change my mind, but I haven't seen the evidence to date.

I have been writing about the SLV since before its introduction (please check the archives). At first, I doubted it would come into existence, mainly because I didn't think there would be enough silver in the world to supply it at what were then-current prices. I still feel that way over a longer term timeline. I'm still fond of the phrase coined by a friend, Carl Loeb, who referred to the SLV as the "Death Star" in position to gobble up all the silver in the world. Having already captured 30% of the world's silver bullion in less than six years, it would appear to be premature to place a limit on how much the SLV and other silver ETFs may accumulate in the future. Particularly when compared to the percentage of gold held in ETFs relative to all gold bullion, one could make a case that SLV and the other silver ETFs have already met the definition of being the silver "Death Star."

To my mind, the SLV and other silver ETFs have been the silver investors' best friend; clearly responsible for much of the price gains since 2005. It is hard for me to imagine how we would have witnessed the price gains over the years without these ETFs. Therefore, it is ironic to me why they receive so much criticism. Certainly, I have never witnessed an occasion when the SLV functioned differently than it should have (other than in the short selling of its shares). In fact, activities surrounding the SLV have confirmed key facts in recent silver history. For instance, it was perplexing for a while after the introduction of the SLV as to where all the silver was coming from during its first year or so. Then it became clear that much of the initial silver deposited in the SLV came from none other than Warren Buffett, who I claimed was snookered out of his silver due to trading on the short side of COMEX silver.
http://news.silverseek.com/TedButler/1147188385.php

My point is that the SLV, given that it is the largest single stockpile of silver in the world, will remain a focal point in silver. Whether you choose to invest in it is a personal and separate matter. I've done so and will disclose if that changes. (Let me clarify that □ my wife has done so, at my direction. If you don't feel that is even more of an intense statement of ownership, then my guess is that you've never been married). Straight up, given the choice, I would rather hold a box of Silver Eagles than 500 shares of SLV. Then again, 500 shares of SLV don't weigh 35 lbs. In the real world, it's not always a straight up choice. Many investors can't handle the physical logistics or realities of holding large amounts of physical silver or they are restricted to stock investments. While I would choose physical silver in personal possession where possible, if the choice is a silver ETF or no silver at all, I'd run to the silver ETFs, including SLV.

Many of you asked if holding one silver ETF was better than holding another. Specifically, many asked should they hold the Sprott PSLV versus the SLV. That's tough for me to answer. I like them both. I know Eric Sprott is generally held in a higher regard than the managers of SLV, BlackRock. But perhaps because of that well-deserved higher regard, the PSLV has traded at a fairly consistent premium to net asset value of around 15% to 20% (it is a closed-end fund, like CEF). Maybe that premium continues or expands, maybe it doesn't; I can't say. Perhaps the new shelf registration for new shares will allow investors to buy shares of PSLV at or near net asset value as is the case in SLV. It comes down to a personal choice. Just make sure you know all the differences, as it's rarely a black and white issue. If need be, ask me specific additional questions. Certainly, not everyone can switch easily from SLV to PSLV as SLV is almost 15 times larger than PSLV. That is true with all silver ETFs in general.

I would like to say that Eric Sprott should be highly commended for his recent public statements exhorting silver miners to speak up and get involved concerning the artificial pricing practices in the silver market. (Usual full disclosure, Sprott is a subscriber). In my opinion, the silver manipulation would have been terminated years ago had the silver producers put their shoulders to the task. I tried my best to get the silver miners involved, but only met with very limited success back then. http://news.silverseek.com/TedButler/1079479077.php I am hopeful that Sprott's message resonates with the silver producers, as they and their shareholders are being cheated by the silver manipulation. Here's a recent example of the message that Sprott is spreading. http://www.mineweb.com/mineweb/view/mineweb/en/page96985?oid=141080&sn=2010+Detail&pid=102055

Whether you decide to invest in SLV or some other silver ETF, make sure that the bar list is published. There are other silver ETFS that operate on leverage and don't hold actual metal. These ETFs may offer speculative trading opportunities through the use of leverage, but should not be considered on the same level of relative safety as the ETFs that do hold actual metal.

If there is one chief point I would like to leave you with in this review it is that regardless of whether you decide to invest in SLV or any other silver ETF, as a silver investor, you should be aware of the impact these ETFs have had and will have on the silver market. Nowhere is this truer than in the issue of the short selling of shares of silver ETFs, particularly SLV. When you really get down to it, I believe that the matter of short selling in shares of SLV should be more of a concern to silver investors in general than specifically confined to SLV investors. How so?

I believe that much more harm has been done to silver investors and silver producers and their shareholders in general by the shorting of SLV shares than to just SLV investors alone. That's why I make such a big deal out of it. (And why I continue to hold SLV). Of course, SLV investors have been damaged by the excessive short selling in shares of SLV, but it would be a mistake to assume the damage is confined to SLV investors. As the largest holder of silver on the planet, the SLV has a profound influence on the price of silver. Since the excessive short selling of SLV shares influences the price of those shares, it automatically also influences the price of silver itself. From the beginning of this year to the price peak in April, the short position in SLV grew by 25 million shares to 37 million shares. Legitimate investors bought those 25 million newly shorted shares. If those newly shorted shares had instead been backed by real silver deposited into the Trust as prescribed by the SLV prospectus, the price of silver would have climbed much higher than the $49 price achieved. That's because there wasn't 25 million real ounces of silver available at that time at then-current prices and any attempt to purchase that amount of real silver would have driven prices much higher. Thus, the short sellers of those 25 million shares/ounces of SLV did an end-run around the prospectus and interfered with actual supply and demand fundamentals. That is a flat-out a violation of the laws governing interstate commerce and commodity law.

This excessive paper short selling in SLV has every bit the same manipulative effect on the price of silver as does the excessive paper selling on the COMEX. In fact, I believe that the same price manipulators are behind both SLV and COMEX short selling. If I am correct, it would prove silver manipulation beyond any shadow of a doubt. And all it would take is the regulators objectively looking at the data. Innocent silver investors and producers alike are and have been victimized by both instances of manipulative short selling, SLV and COMEX alike. That's why I intend to continue to press the current sponsor of SLV, BlackRock, to eliminate the excessive short selling in shares of SLV. This is not just a concern to SLV investors, but to all whose fortunes ride on the price of silver.

You never know what the silver crooks have lined up next up their sleeves to manipulate the price. Maybe they'll resort to excessive short selling in other silver ETFs. The point is that they need crooked tricks to slow the ascent of silver prices. The good news is that such dirty tricks appear to be limited and they leave telltale trails of evidence in their wake. Also good news is that more people are not only becoming aware of the manipulative dirty tricks, but are also more forceful in speaking up about it. It would not shock me to someday wake up to an announcement that a silver producer or group of producers suing the CME Group or JPMorgan or BlackRock for involvement in the silver manipulation. Such an event or a similar action by the regulators could shock the market. Truth be told, I would be more shocked if that never occurred. If I haven't answered your questions about SLV in this article, please get back to me.

Ted Butler

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Silver – $32.50

Gold – $1741