Feb. 4, 2010 – Phoenix Silver Speech

Obviously, this speech was prepared before the vicious smackdown of the past two days. As painful and infuriating as the intentional sell-off has been, it is greatly improving the market structure. This is a clean-out of dramatic importance. I am still of the belief that this sell-off has been created because the silver manipulation is closer than ever before to being resolved. Sent from Phoenix

Cambridge House Phoenix Silver Summit 2010

Silver Review and Outlook

February 4, 2010

Theodore Butler

First, I'd like to thank all of you for coming here today, and to Joe Martin and Howard Fitch for organizing such a great event. It's an honor to have been invited. This is the second conference I've attended here in Phoenix and I'd like to thank again those who have been instrumental in what I do, namely, Jim Cook from Investment Rarities, Izzy Friedman, my long-time friend and mentor and my wife Mila, who is here today with our son Ross.

In deciding on what to speak about today, I re-read my speech from last year.
http://www.investmentrarities.com/ted_butler_comentary/02-23-09.html

In that speech, I talked of silver's past, present and future. I'd like to recap and summarize the past and present sections and then update and revise what the future holds for silver. One thing that hasn't changed, however, is my expectation that silver will be among the very best of investments in the future, much as it has been for the past decade.

Last year, I observed silver's past, or the time period covering thousands of years up until about 5 years ago. I tried to describe how silver was always a highly desired precious metal, valued for its beauty and value in jewelry and ornaments and as money, much like its fellow precious metal gold. And, starting 100 to 150 years ago, how silver evolved into a vital and strategic industrial commodity. This transformation of silver into a modern industrial material was predicated upon its physical and chemical properties. These properties included it being the best conductor of electricity, the best transfer agent of heat, the best reflector of light, the most efficient photographic chemical and the most versatile biocide. In fact, silver is used in more industrial applications than any other metal.

Because of the wide range of uses in which silver is the preferred ingredient, it began to be industrially consumed in prodigious quantities. So great was the industrial consumption of silver, that the world used more, starting around the beginning of World War II, than it could produce from mining and recycling. That over-consumption mandated that previously produced silver, in the form of world inventories, be consumed, in addition to mining and recycling. The net result was that over 60 or 70 years, the above ground inventories of silver were depleted by 90% or more. In other words, we have only 10% in world silver bullion inventories of what we had back 70 years ago. We had 10 billion ounces of silver bullion inventories then; now we have 1 billion ounces remaining.

At the same time, gold inventories grew dramatically over the past 70 years, as gold's industrial consumption did not develop like silver's did, mainly because gold was and is one of the most expensive materials in the world. It's not that gold didn't have its own special physical and chemical properties; it's just that you don't use an expensive material unless you have no other choice. The bottom line, silver's inventories were used up; gold's inventories grew

The net result of this was one of the most incredible situations ever witnessed in world history, namely, that a comparable commodity that was rarer than another commodity could be much cheaper than the more plentiful commodity. In above ground bullion inventories, gold is more plentiful than silver, yet silver is less than 1.5% the price of gold. Common sense should tell you that such a relationship is absurd and cannot last indefinitely. Investment sense should also tell you that price relationship is absurd and unlikely to last, creating the best reason to buy underpriced silver.

Finally, despite the ease by which these relative gold/silver world inventory statistics can be verified, less than one-tenth of one percent of the world's citizens are aware of the fact that silver is rarer than gold. I would guess that a good percent of those who do know, are in this room today.

In the silver present section last year, I highlighted how the 60 year deficit consumption pattern had finally come to an end several years ago. Many were disappointed when I first reported that we stopped consuming more silver than we produced and they assumed this meant the end to why silver should be bought. But the ending of the silver deficit had to come at some point, as it could only continue as long as there were sufficient inventories to draw down. Since so much of the world's silver inventories had already been depleted, over 90%, it was only a matter of time before no more could be easily consumed. The amazing thing was how much inventory depletion had occurred, before the price stated to climb several years ago.

I also commented on how the ending of the structural silver deficit coincided with net investment coming into silver for the first time in many decades. The timing of these two separate developments is amazing beyond description. For silver investors, it was like a flawless passing of a baton in an Olympic relay race. Actually, it was even more remarkable than that. That net investment demand started to emerge only after available world inventories had been depleted to the lowest levels in hundreds of years is another one of those things that I couldn't make up if I tried.

Last year, I talked about how the metal ETFs, GLD in gold and SLV in silver had radically altered the investment landscape, by enabling those entities who were previously excluded from buying metals to do so in practical terms. I commented that I couldn't understand why there was so much hostility in the precious metals community about the validity of the metal ETFs, aside from the shorting of shares topic. I have long advocated the ownership of physical silver over paper silver, and if someone has a choice between buying 500 ounces of real silver in hand, instead of 500 shares of SLV, he or she should choose the metal in hand. But if the choice is between buying 500 shares of SLV or no silver at all, then please buy the SLV. The more than 450 million ounces bought in the various ETF's over the past 4 years has been a wonderful addition to the silver investment equation. While many still moan about the metal ETF's, in my opinion, the silver manipulation would have lasted another 10 years if the ETF's never came into being.

Turning to the part of last year's speech where I talked about silver's future, I asked those present to play along with me and imagine that there was a giant African Bush Elephant in this room and how we were all pretending it didn't exist. I likened the giant elephant to the silver manipulation, in that both were so obvious that is was incredible how they could be ignored. I was particularly critical of those in the silver business; the miners, the analysts and the regulators for pretending the manipulation did not exist.

I reserved my harshest criticism for the primary silver regulator, the Commodity Futures Trading Commission, the CFTC. I chastised the Commission for opening their third silver investigation in five years based upon my allegations, instead of just answering my simple question. How can one or two US banks hold 25% of the world production of any commodity short (or long) and that not be manipulation? A year later, that question has not been addressed by the Commission or anyone else.

Over the past year, a lot has changed in silver. First, we had a great year of price appreciation, following a rotten 2008. And I finally got around to starting my own private newsletter, something I had postponed for many years. I'm sure there are several subscribers present, so let me thank you personally for your support. But the most important development over the past year was the nomination and swearing in of a new chairman at the CFTC, Gary Gensler.
Let me speak bluntly, his appointment promises to impact the silver manipulation more than any other recent development. Last year at this time, he had been nominated by President Obama, but it would not be until almost June until he was confirmed by the Senate and sworn into office.

I have been unabashed in my praise for Chairman Gensler since the time he assumed office. I have called him the greatest chairman in CFTC history. Because of that praise, I have encountered perhaps the strongest disagreement from those who follow metals, people like you. Perhaps by a margin of 100 to 1, or even 500 to 1, my opinion of Gensler has been rejected. I understand that disagreement. Yes, he was a partner of Goldman Sachs, the dreaded Â?vampire squidÂ? of the financial world. Yes, he was a participant in the deregulation of 2000, which added greatly to the financial crises of the past couple of years. Yes, he is an Â?insider,Â? with connections and access to those in power.

The real irony is that the disagreement that I face in my opinion of Gensler is largely a result of my own creation. If there has been a more outspoken and consistent critic of the CFTC over the past decade than me, then I am unaware of who that might be. I have asked many of you to join with me in my criticisms and allegations and you have done so. This outpouring of public response is what has been responsible for the three silver investigations to date and the recent announcement of a special public meeting on precious metals and position limits by the CFTC. I understand that my dramatic shift in opinion has been too abrupt and radical for most. But I have to call them as I see them.

I have acknowledged from the start that I could be wrong in my judgment of Chairman Gensler, and I will admit that I was wrong if it comes to that. My real fear is not about being wrong in judging him, but rather that no one, not even Gensler, might be able to deal with the problem of the silver manipulation because it is so entrenched. I would like to explain briefly why I hold him in such high regard.

I have been complaining about the manipulation in silver for 25 years, a decade before I even started writing about it on the Internet. Back in the 1980's, there was no Internet for most of us. That was so long ago, that I still had my hair back then. From the beginning, I raised the specific issue of position limits and the excessive speculation on the short side by commercial interests. I have copies of correspondence from the COMEX, the Chicago Board of Trade and the CFTC that are so old, that soon my wife may bring them to the Â?Antiques Road ShowÂ? for appraisal. For 25 years, the regulators have dismissed and brushed aside my concerns about position limits and the short side concentration in silver. Still I persisted. I'm not patting myself on the back, it was just a simple case that I knew I was right.

Then, something remarkable happened last year. The new chairman of the CFTC started speaking about position limits and excessive speculation and concentration; not in silver specifically, but in energy. But Chairman Gensler did not limit the issues to energy; he included all commodities of finite supply. For the first time in 25 years, the top commodity regulator started to speak consistently and clearly on the very same issues that I had written about for a quarter of century. Not for one minute am I suggesting that Chairman Gensler raised the issues of position limits and concentration because of anything I may have written. I'm not that self-centered. He raised them for the simple reason that they are the most important regulatory issues of all, regardless of the commodity in question.

Still, Chairman Gensler's clear words in countless speeches and interviews on position limits and concentration were both unnerving and exhilarating to me. Here was a guy saying exactly what I had said for 25 years. Not just any guy, but the nation's top commodity regulator. Let me relate a true story. Last summer, I had the CFTC's open hearings on energy position limits hooked up on my computer with the volume kind of loud. Gensler was speaking and I didn't want to miss a word. My wife happened to pass by in the next room and overheard Chairman Gensler talking about position limits and concentration. I try to shield Mila from the many details of my work, as one silver nut in a household is plenty. Still, she is aware of what can upset me. Knowing that people copying my work with no acknowledgment is upsetting to me she innocently asked me if the guy on the computer wasn't plagiarizing my stuff. I assured her that the guy was the chairman of the CFTC and he could plagiarize me until the cows came home.

This isn't about Chairman Gensler saying the right thing because he is saying what I want to hear. This is about him saying the right thing, period. The issues of position limits and concentration are the most important issues of all. Manipulation is the Commission's number one concern. You can't have a manipulation without a concentrated position. You can't have a concentration with valid position limits, including legitimate hedging exemptions to those position limits. Therefore, you can't have a manipulation if you have legitimate and enforced position limits. This is at the core of the intent of commodity law. The reason we have a manipulation in silver is because we don't have proper and enforced position limits.

I can't guarantee to you that Gary Gensler will persuade the Commission to institute legitimate position limits in silver, including cracking down on the concentrated short position of the big US commercial banks. I can guarantee you that if the CFTC instituted common sense speculative position limits and exemptions to silver; the manipulation would end at that precise moment. I can tell you that Gensler has brought us, intentionally or not, to the brink of the silver resolution. So has the President of the United States. In his speech two weeks ago, President Obama pledged to curtail the proprietary and speculative trading by banks backed up by the government. Former Federal Reserve Chairman Paul Volcker said the same thing two days ago. I would assume that would apply to JPMorgan and their speculative and manipulative short position in silver.

This is my point. Legitimate and honest rules and fairness in silver would free the price of silver. Nothing could be simpler; if the regulators do the right thing and enforce the intent of commodity law the silver manipulation will end. But what if the regulators and Gary Gensler don't enforce the intent of law, then what? The simple answer is that it will not matter for anything except the timing.

The silver manipulation will end regardless of what anyone, including Chairman Gensler, does or says. It will end because the coming certain physical shortage guarantees that it will end. That is the backstop in the event Chairman Gensler can't or doesn't implement legitimate position limits in silver. The inevitable moment when the world's tens of thousands and perhaps hundreds of thousands, of industrial fabrication users begin to experience delays in their real silver deliveries, the silver manipulation will crumble. Why? Because the manipulators can sell unlimited quantities of paper silver contracts short to contain and depress the price, but they can't pull real silver out of thin air to satisfy users' demands if the real silver doesn't exist.

Already we are seeing delays in the shipments of silver to various silver-related ETF's and in COMEX deliveries. These investment-type delays are tolerated because what does it matter if an investor has to wait a while for his silver. That's not a critical, life or death concern. But when the delays spread to users, then it becomes a life or death situation; the potential life or death of a company needing silver as a key component. User delays will trigger user inventory buying panic.

So, if the coming silver shortage will spell the end of the manipulation regardless, then why should I obsess with what Chairman Gensler and the CFTC might do to end it? The answer is simple. It has to do with integrity. If the CFTC waits to address the silver problem until after the physical shortage hits, it will rain shame and disgrace on the Commission for not acting sooner. We need more disgrace brought upon the important regulatory institutions of this country, like we need holes in our heads. Silver will explode in price no matter what the Commission does. But only by getting ahead of this issue can Chairman Gensler hope to salvage integrity for his agency and our markets. For his and our sakes, I hope he does the right thing.

Thank you for your time.

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