

Weekly Review

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Despite a late-week sell-off, both gold and silver finished higher for the week, gold for the second consecutive week, while silver made it higher for 3 weeks in a row. Gold was up a bit over \$7 (0.5%), with silver up more than 80 cents (2.8%). As a result of silver's outperformance, the gold/silver ratio weekly close (45.35) was more favorable to silver than at any time since 1998, when Warren Buffett announced his big silver purchase. What this means is that anyone who switched from gold to silver at any time over the past 13 years is better off as a result.

I have been publicly beating the switch from gold to silver drum for more than 10 years. Short-term fluctuations notwithstanding, I am convinced it is still a great long-term proposition. Sure, it would have been better to have switched from gold to silver when the ratio was more than 80, 70, 60, or 50 to 1, as was available over the past ten years, but none of us can turn back the clock. We have to deal with the present. And while silver was cheaper to gold in the past than currently, there is a new and more compelling reason supporting the switch today. This falls under the category of common sense.

Gold and silver are similar in many ways and different in other ways. In

comparing two such similar items for investment consideration, an analyst (or investor) looks for relative value and prospective performance. One may decide to invest in a computer technology stock, but which stock one chooses can make a big difference. For instance, five years ago, if someone bought and held Microsoft, a great company, he would be roughly even on his investment today. If someone bought Apple Computer instead, he would have seen his investment grow by 400%. Admittedly, it's easy to make comparisons like that in hindsight, but my point is merely that it can and does make a big difference in the choosing of the specific item in which you invest. While gold has done great over the past 5 or 10 year (about and almost as good as silver), and it is still structured bullishly from a COT basis, I see the continued relative outperformance of silver over gold emerging for an obvious and visible reason.

I have been reporting here of the growing number of signs that things are tight in the physical silver market, both retail and wholesale. The signs include growing delays in deliveries (the definition of shortage), unusually high turnover in COMEX inventories and near-record low total levels, unusually large deliveries in non-traditional COMEX delivery months (Jan and Feb), spread movements (towards backwardation) in COMEX futures, periodic reports of various forms retail silver being unavailable, the US Mint and other mints being unable to fully keep up with silver demand, the physical flows in the various silver ETFs, unusually strong investment buying of silver relative to gold, etc. I'm sure you have read about many of these signs of silver tightness elsewhere. Striving to

remain objective, I just don't see these signs of physical tightness present in gold. Maybe these signs will emerge in gold at some point in the future, but they are not here yet.

If two similar physical precious metals are being considered for purchase and one exhibits clear signs of physical tightness and potential shortage and the other doesn't, which one is likely to go up more? You want to keep things as simple and objective as possible and this is as objective as it gets. Silver appears on the edge of a pronounced physical shortage; gold doesn't. I believe this is what will continue to power silver's performance over gold, despite the great relative gains to date. That doesn't mean gold has to go down in price; it just means that silver should go up more. Things in a shortage go up more than things not in a shortage.

For the week, the turnover in COMEX inventories continued, the spreads in silver remained inverted from July onward, and metal ceased flowing out of the big silver ETF, SLV. The latest reported short interest report indicated an increase in the shorting of SLV shares by 2 million shares, to 16 million. This suggests to me that short sellers of SLV are having trouble securing physical silver. <http://www.shortsqueeze.com/?symbol=slv&submit=Short+Quote%99>

The key here is that there are many new and unprecedented signals that

physical silver is tight. Taken separately and in isolation, none would prove conclusively that a shortage would be at hand. But taken as a whole, a compelling picture of genuine tightness does emerge. Until these signs dissipate, it should be assumed that physical silver remains tight.

This week's Commitment of Traders Report (COT) had an unusual twist. The commercial net short position increased notably in both silver and gold, but not due to a marked increase in additional commercial short selling. I know that sounds contradictory, so please let me explain. The increase in the commercial net short position came largely as a result of the raptors (the smaller commercials in silver and gold, other than the big 8, that held long positions) selling out long positions, rather than the big 4 and big 8 selling additional contracts short. This raptor selling of long positions does have the same mathematical effect of increasing the commercial net short position, as would additional short selling by the big concentrated shorts, but it is important to know the difference.

It would have been very disappointing had the big concentrated shorts, led by JPMorgan, sold many additional contracts short, as that would have indicated the silver manipulation was intensifying, instead of diminishing. A marked increase in the big 4 concentrated short position would indicate that the big shorts were back to their crooked ways. The good news is that wasn't indicated in the new COTs. In silver, on a 6300 contract increase in the commercial net

short position, the big 4 only increased their short position by fewer than 300 contracts. The raptors sold out (not short) of 4600 contracts, or 75% of the total increase (the 5 thru 8 largest shorts did short the balance).

In gold, the same pattern emerged. The gold raptors sold out of more than 16,500 contracts, which accounted for the entire increase in the commercial net short position. Like in silver, the increase in the commercial net short position was not caused by additional short sales by the big shorts. The big 4 shorts in gold actually decreased their net short position by more than 1000 contracts. Why do I think this important? The key to the silver (and gold) manipulation has been the concentrated short position. If there were no concentration, there would be no manipulation and I would openly acknowledge that. As the concentrated short position is reduced, or at least not markedly increased, we move closer to a free and non-manipulated market in silver and gold.

It has been very important and encouraging that JPMorgan has been decreasing its giant silver short position over the past few months. At last count, JPM had closed out 11,000 silver contracts over the past three months, down to roughly 19,000 contracts in the latest Bank Participation Report, as previously reported. Since the big 4 short position did not increase much over the past 2 weeks on a better than \$3 increase in the silver price amid an 8,000 contract increase in the total commercial net short position, this does appear to confirm that JPMorgan still wants out of their manipulative short position. I can't prove it, but

I would not be surprised if the CFTC privately told JPM to reduce their concentrated short position. At least I hope so, as that would have been the proper thing to have done.

What does this all mean for the future price direction of silver (and gold)? It's not all peaches and cream, but on balance I feel it is good. Let's get the potential bad stuff out of the way. As predicted previously, the technical funds did come back onto the long side on the move above the moving averages. In fact, tech fund buying of more than 10,000 contracts over the past two weeks is the primary reason we went up in price. Even though I am relieved that it was mostly the raptors selling to them, the fact is that this tech fund buying is now at risk for liquidation if the commercials can rig a sell-off below the moving averages. There is no doubt that all the commercials, the big 4, big 8 and the raptors act collusively when going after the tech funds. Rarely do any of the commercials do the opposite of one another. So all the commercials, under the auspices of the criminal enterprise, also known as the CME Group, are licking their chops at the prospect of rigging the market down to force tech fund selling in order for all the commercials to buy. You would think the CFTC would be aware of this planned illegal action, but we can't depend on them to do the right thing. The bad news is that if the commercials succeed in their clear as day planned ambush of the tech funds, we're going to drop a buck or two in silver.

However, there's no guarantee the collusive shorts can pull off their planned rig

job to the downside. For one thing, physical silver market conditions can easily overwhelm them, as we continue to move to the transition of when physical trumps paper. Ironically, this is the way the market is supposed to work, with futures trading following real market developments, rather than by the futures setting the price. Because the big silver shorts, led by JPMorgan, don't appear enthusiastic about adding new shorts, and because the raptors now hold their smallest net long position in three years, there doesn't appear to be significant selling potential should prices move higher. Those investors holding physical silver don't appear likely to sell except at much higher prices. In other words, we could easily witness a selling void or vacuum on a price rally over the recent highs. It wouldn't necessarily take a large volume of buying to move silver prices sharply higher; a lack of selling could allow prices to fly on very little buying power.

Additionally, while I continue to propose that gold positions be switched to silver for maximum investment returns, the COT set up in gold is great. The tech funds are holding relatively small long positions, with the commercials, especially the big shorts, holding extremely low historic short positions. Anything can happen in the short term, but gold is not structured to move significantly lower due to the COT composition. In this sense, the gold COT structure is supportive for silver, particularly if gold exceeds the 50 day moving average, around \$20 higher from current prices.

I don't like talking out of both sides of my mouth, so let me try to distill this in a coherent manner. Due to the recent sharp rally of \$3 to \$4 in a little over 2 weeks, and the return of the tech funds to the long side, there is a risk now present of a sell-off of \$2 or so. That's not a guarantee of a sell-off, just a risk. If that sell-off is realized, it will be because the commercials collusively banded together to illegally push the tech funds out to the downside, while the CFTC sat by and twiddled their thumbs.

On the other hand, instead of the commercials succeeding to push prices lower, the potential lack of selling could allow prices to soar on very little buying. It would not surprise me to see a very quick \$5 to \$10 spurt if the resolution lies to the upside. Therefore, the risk/reward ratio is quite good, despite the risk of a manipulated sell-off. I'm trying to cover my butt, no matter what happens to price. None of this "I'm bullish long term, but bearish short term" for the sake of not wanting to be wrong no matter what. I'm bullish on silver long term, short term and any damn term possible based upon all the facts. If we do sell-off it will only be because the commercial crooks successfully colluded amongst themselves one last time. The advice to silver investors is to strap in for a rocket ride and not to lose positions if we get the crooked sell-off first.

As a reminder, I'm scheduled to speak at the Cambridge House Silver Conference in Phoenix next Friday, February 18. If you are in the area, please drop by.

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<http://cambridgehouse.com/conference-details/phoenix-investment-conference-and-silver-summit-2011/16>

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Silver - \$29.90

Gold - \$1356