

No Manipulation, After All?

In the never-ending search to either verify or rebut one's own findings, I'd like you to consider something different today. I'm going to ask you to set aside my highly specific allegations of wrong-doing in the silver and gold markets, mostly centering on JPMorgan, and focus instead on whether if what I allege is really wrong or even matters much. Even though my allegations are based upon data published by the CFTC and CME Group, I would ask you to put that aside and consider that I may have been making a mountain out of a molehill about silver (and gold) price manipulation.

The best way of determining whether there is anything wrong in silver is to do a controlled experiment, namely, by removing it from the equation (along with any mention of JPMorgan) and substitute any other world commodity or entity in its place. In other words, would it be patently and outrageously illegal or no big deal at all if what is transpiring in silver occurred in any other commodity? I'll present the facts and leave you to be the judge.

Pick any and every commodity with an active futures derivatives market that comes to mind and plugin the facts that are known to have existed in COMEX silver over the past ten years. Any and every commodity - corn, copper, crude oil, no exceptions. Now let's plug in what we know in terms of facts that exist in silver.

First, we know from COT report data that a single entity has held a consistently large concentrated short position in COMEX silver, larger in terms of actual world production than in any other commodity. We further know that this large entity has always been the largest futures market short in COMEX silver over the entire decade; never flipping to net long. Next we know from COT data that while this

February 14, 2018 - No Manipulation? - Best Friend

uniquely large concentrated short seller has always been net short, its short position has both expanded and contracted regularly over the years and - get this - it has never lost money as it added or bought back short COMEX futures contracts. Never a loss, always only gains, a stunningly perfect trading record. This is determined in silver from observing changes in the concentrated short position of the largest short entity.

Finally we know, from the same source data used in the COT report but published separately in the Bank Participation report, that the dominant short seller in COMEX silver is a large US bank. Although this fact, by itself, wouldn't be necessarily germane to the question if a manipulation exists or not, it does help tie in other facts.

You should now be envisioning any world commodity that comes to mind having had a single dedicated and dominant futures market short seller who has been consistently short for a decade and who has a perfect trading record - never suffering a loss and only having made profits from the short side. Wouldn't you be at least a little suspicious that something was wrong or that the market was rigged? Or would a single large trader, always short and never long or wrong for ten years running in corn, copper or crude oil or any other commodity not bother you at all?

Before you make up your mind, let me add in a few related facts. What if I told you that the same single dominate futures market short seller had spent the last seven years, in addition to maintaining its perfect paper trading as the largest short seller of all, also acquiring a massive physical hoard of the same commodity? And get this - this same paper market dominator had managed to acquire the largest physical stock pile in history of this same commodity.

Wouldn't the thought cross your mind that maybe this big entity was milking this

February 14, 2018 - No Manipulation? - Best Friend

particular commodity in an underhanded manner, not only achieving the first perfect trading record ever and then taking advantage of the overall lower prices its massive short selling caused by buying all it could of the same commodity in a different form? Wouldn't this sound like the perfect commodity price manipulation, namely, the manipulator making on both sides, milking the paper side and then using its price influence to buy the physical side in massive quantities and at depressed prices?

But wait, there's more. What if I told you that there was a federal regulator, as well as a self-regulating entity in existence, in the form of the CFTC and the CME Group, who were specifically mandated with preventing such a scheme as I just outlined as their primary mission? Neither regulator has said anything about any of this for ten years, although the CFTC closed a formal five-year investigation into silver manipulation in 2013, which was inconclusive to say the least. Oh, and the financial institution identified as the big silver manipulator, JPMorgan, hasn't said a peep about being publicly accused of criminal wrongdoing. Most usually, financial institutions are interested in maintaining the highest reputation possible and immediately address any issues contrary to their best interest. Not so with JPMorgan and silver.

So, you make the call. If the facts that are known to exist in silver were present in any other commodity, would this constitute manipulation in your opinion? Or if the facts were sufficient enough so as to require the CFTC, the CME, and JPMorgan to at least try to explain why manipulation wouldn't exist in silver, given the verifiable facts? You might want to remember this the next time someone declares that no manipulation exists in silver or even better, that all markets are manipulated, so who cares? Just ask them which market features the largest paper short which also happens to be the largest physical buyer of that same commodity?

February 14, 2018 - No Manipulation? - Best Friend

Here's a recent article I wrote for Investment Rarities, Inc. to encourage those new to silver to take advantage of its current undervaluation. I thought those not new to silver might get something constructive out of it as well.

The Silver Investor's Best Friend - Undervaluation

In the world of investments, the most important consideration is valuation. Determining whether an asset is fairly valued, overvalued or undervalued is the single most critical issue that an investor can make. That's because holding an asset that is overvalued increases the odds that the asset can more easily move to being fairly valued or undervalued; while an asset that is undervalued has greater odds of then becoming fairly or overvalued. Assets that are undervalued or overvalued can remain in that state for extended periods of time, but history suggests a much better outcome when holding assets considered to be cheap and not expensive - buying low being better than buying high.

The main means of determining whether an asset is under or overvalued is by time-honored objective measurements, including historical comparisons on both an absolute and relative basis. For example, how current price-earnings ratios compare to previous periods is used to determine how the stock market is valued on an absolute basis. How current prices for an asset compare against other assets measures relative valuation.

February 14, 2018 - No Manipulation? - Best Friend

Generally speaking, assets that are trading near all-time highs are better candidates for overvaluation than undervaluation; while assets trading well below and closer to the lows of historical prices are better candidates for being undervalued. The most overvalued assets are those whose price is not only historically high on an absolute basis, but also priced high relative to other assets. The most undervalued asset is the one that is not only cheap on an historical absolute basis, but is also cheap relative to other assets. Objectively speaking, the best investment asset to buy is the one most undervalued on both an absolute and relative basis.

I believe silver is the single most undervalued asset currently available, both in its own right and compared to every other asset. Silver's absolute undervaluation can be seen in measuring its current price to past prices, where the current price is down 70% from the price peaks of seven years ago. Current prices are currently below the primary cost of mine production, an age-old sign of undervaluation. On a relative basis, silver is measurably cheaper than it has ever been to just about every asset in the world, including its most comparable asset, gold.

Silver has only been priced cheaper relative to gold than it is today (the silver/gold price ratio) on a very few occasions over the past 5000 years and every time it was priced this cheaply, it soon vastly outperformed gold. That appears unavoidable this time as well. In every sense of the term, silver has become undervalued gold.

On every possible measurement, relatively and absolutely, silver is the most undervalued investment asset of all. There is even a very good reason why silver is as undervalued as it is, namely, that its price is manipulated in COMEX paper trading. This is not the subject of this article, except to say that the assertion that any asset was the most undervalued of all had better have a darn good reason for explaining

what caused the undervaluation. Silver has the best reason of all.

By definition, the more undervalued the asset, the less the risk and the greater the profit potential. That's the whole purpose of the exercise. As might be expected, the search for the most undervalued assets in which to invest is not as simple as it sounds. For one thing, investing in undervalued assets runs counter to the popular collective investment behavior of buying assets that have and are going up in price. The problem is that what feels good collectively in time results in overvalued assets containing more risk and less potential reward.

It's a fact of life that the assets most undervalued are also the most out of favor; if everyone favored and already invested in an asset, it wouldn't be undervalued. It takes a high degree of clear and independent thinking to invest in an undervalued asset not currently in favor. Heck, it takes a high degree of clear and independent thinking to even consider investing the time to look into such an undervalued asset. I promise you that if you take the time to consider an investment in silver, you will conclude that it is the most undervalued investment asset of all on every possible absolute and relative measurement. The only catch is to do your study and investment while silver remains undervalued.

Turning to developments since the Saturday review, gold and silver prices are sharply higher as I begin to write this Wednesday morning, after first falling sharply as a higher than expected consumer price index was released (go figure). The key question is if this is the start of something to the upside. It's too soon to say for sure, of course, but I am playing it as if this is the start.

February 14, 2018 - No Manipulation? - Best Friend

Going into today, the standout feature in terms of market structure was that the gold market structure was bearish (but closer to neutral) and the structure in silver was extremely bullish. The extreme mismatch between the two structures wasn't unprecedented, but neither was it typical. The respective structures were visible in that gold had continued to trade above both its key moving averages (50 and 200 day ma's) since late December, while silver had been trading below both its key moving averages for eight days through yesterday.

The biggest concern I had was that the commercials would rig a selloff in gold to flush out managed money selling since gold prices had sold off by close to \$50 from the late January highs and were in striking distance of penetrating gold's 50 day moving average on last week's close. While that's still a concern, there is also no denying that the gold market structure improved on the selloff, even though no moving averages were penetrated.

Based on the improvement expected in this week's COT report, through yesterday's cutoff for the reporting week, there is now more room to the upside in gold in terms of potential managed money buying or selling to come, putting gold's COMEX market structure into the neutral state as of yesterday's close. I would expect net commercial buying and managed money selling on the order of 25,000 contracts in this week's COT report.

I also expect an improvement in silver of around 10,000 net contracts (hopefully more), but the key difference with gold is that silver's market structure was already extremely bullish before this week. At this morning's highs, silver had penetrated to the upside its 50 day moving average and was not that far away from penetrating its 200 day moving average. Again, moving averages don't mean much to me by

February 14, 2018 - No Manipulation? - Best Friend

themselves, but their penetrations motivate the heck out of the managed money traders. The reason I consider silver's market structure to be extremely bullish is because there are many more potential managed money contracts to be bought than there are to be sold.

But as you know, potential managed money buying, as strong as it may be, is not the most critical factor in the silver and gold pricing equation. Instead, the most critical factor is the intensity of the commercial selling that offsets managed money buying, particularly the amount of new short selling by JPMorgan. The only reason silver price rallies have been progressively more tightly capped over the years is that commercial selling, most definitely including new short selling by JPM, has been aggressive enough to contain prices. Even the collective buying of hundreds of millions of ounces of COMEX paper silver by the managed money traders in short periods of time (weeks) has been incapable of adding more than a couple of dollars to the price. That's how aggressive commercial and JPMorgan selling has been.

Those are the market facts of life and what it has come down to is if the commercials will continue with the same old, same old wash, rinse and repeat cycle, with silver and gold remaining trapped in a seeming never ending contained price cycle. Many believe that the cycles have become so well-entrenched that to suggest that they might change is foolhardy. I'm not in that camp. I believe this COMEX silver price manipulation will end suddenly and violently and I have chosen to play it that way (all-in on a cash basis and instead of margin, gaining leverage through injudicious and otherwise reckless call options on SLV). Certainly, this is not the approach anyone should take if he or she thought the manipulation would be maintained indefinitely.

February 14, 2018 - No Manipulation? - Best Friend

Even in gold, but particularly in silver, the real wild card is what JPMorgan will do on the next price rally. As a consequence of acquiring massive amounts of physical silver and gold (some 700 million oz and 20 million oz respectively), there is absolutely no way JPM could get hurt or not prosper immensely on a true price explosion. In fact, JPMorgan may be in the best position (thru yesterday) it has ever been as a result of holding its largest net long position in silver and gold ever. I suppose, as has happened ever other time JPMorgan has been in this position in the past that this most crooked bank could cap prices yet again for the sole purpose of buying time in order to keep loading physical silver and gold to its already historic holdings.

In the event that JPMorgan decides that now is the time to let her rip, then a number of things come to mind, such as woe to those net short and good luck in trying to quickly assemble a reasonably-priced long position. Nowadays, using the recent sudden and sharp increase in stock market volatility as a current example, things can change in a hurry. More to the point is that the price of silver not only can explode, it should explode, given everything known about a vital and strategic commodity artificially depressed in price for decades. Whether we are on the cusp of that explosion or destined to suffer through another mediocre and capped price rally can't be determined at this point. All we can do is choose how we will play it.

The sharp rally that started this morning as I began writing this has been maintained, particularly in gold, which is once again threatening to take out price highs not seen in two years. Should gold prices rally another \$25 or so from here, gold will be the highest it's been since 2013. Silver has been lagging gold (after all, it is much more manipulated) and would need to trade over \$5 higher (over \$22) to get to prices last seen in late 2013. Then again, if any commodity has the capability of

February 14, 2018 - No Manipulation? - Best Friend

suddenly exploding in price, it is silver, hands down. Not only has the capability, silver has every reason to explode.

Ted Butler

February 14, 2018

Silver - \$16.85 (200 day ma - \$16.84, 50 day ma - \$16.68)

Gold - \$1356 (200 day ma - \$1282, 50 day ma - \$1307)