Cambridge House Phoenix Silver Conference<?xml:namespace prefix = o ns = "urn:schemas-microsoft-com:office:office" />

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Silver Review and Outlook

Good afternoon and thank you all for coming out today. I'd like to thank Joe Martin for inviting me and arranging this conference. This is my third Phoenix Silver Conference, so I thought I might review the silver market by first recapping the highlights of my first two speeches here and then cover what has transpired over the past year.

In February 2009, we had just come off that rotten year for silver that 2008 will be remembered for, when the price fell from over $20 to under $9. As it turned out, that rotten performance in 2008 was also the basis for the slew of civil lawsuits that emerged late last year alleging JPMorgan and others of manipulating the price of silver back then. When I spoke in 2009, the price had risen back to $14 and would subsequently rise to $19 later in the year. The theme of my speech two years ago was silver's Past, Present and Future.

I described how I caught the silver fever, more than 25 years ago, when a brokerage customer of mine first challenged me to explain how the world could be consuming more silver than it was producing for year after year without prices increasing. That challenge by Izzy Friedman, who would later become a good friend and my silver mentor, changed my life, although not necessarily for the better until many years later. At first, it was more like a curse. After much thought and study, I did find the answer to Izzy's challenge, which set my life on unanticipated course. The answer to the question of how could you consume more of a commodity than was produced for a long time without prices rising was you couldn't. It was impossible under our understanding of the law of supply and demand. Yet the impossible was occurring. Here's the qualifier it was impossible in a free market. You could only have a situation where consumption was greater than production in a market where the price wasn't free. You could only have a situation where you consumed more of a commodity than you were producing, eating up inventories all the while, if the price was fixed or controlled, like a government mandated price control during a war or emergency. But this was back in 1985, after silver had run from a few dollars per ounce to $50 during the Hunt Bros episode and back to $5. There was no obvious silver price controls in place, as silver was the most volatile commodity of them all. Then what the heck could explain how prices were now stuck at $5 with an obvious consumption deficit in place?

The answer, I discovered, was that the price of silver was artificially depressed to a very low level by excessive and concentrated short selling on the world's leading precious metals exchange, the COMEX. I have to tell you that when the light bulb went off in my head, it was exhilarating. It was a true Eureka moment. It was a blinding flash of truth and knowledge. Then reality set in. Please remember, this is still 1985, 26 years ago. Armed with what I was convinced was an incredible new insight, all I had to do was explain it to everyone. I thought that would be the easy part and the more than a year that it took me to solve the problem in the first place was the hard part. There's a line from a great Rod Stewart song that goes, "look how wrong you can be." That doesn't come close to describing how wrong I was in assuming I could explain how silver was manipulated by concentrated short selling. It would take me years to fully explain it even to Izzy, and he was the smartest person I knew and had given me the challenge in the first place.

I did try to take the high road and went first to those in the industry, including the COMEX itself and the other big silver exchange at the time, the Chicago Board of Trade and the federal regulator, the CFTC, to not only explain the problem but how to fix it with position limits. I also wrote to and met with silver miners and industry analysts. I honestly thought it would be a relatively simple matter of explaining the situation to anyone connected to silver and everyone would understand it and rush to fix the problem. Instead, I got nowhere. In reality, I got less than nowhere and in more ways than I care to remember it came to have a negative impact on my life. Nobody wanted to hear that silver was manipulated in price. Many still don't want to hear that. As a result, I entered into a sort of self-imposed exile from what had been my profession for a good number of years. What I had underestimated was the difficulty in explaining my discovery due to the complex nature of the issue and the natural reluctance on the part of others. I didn't fully appreciate how the exchange and the CFTC wouldn't want to hear about a manipulation they should have caught themselves and would fight me on every contention I made. I was even more amazed how those in the industry, but not responsible for regulation, openly scoffed at suggestions that the price of silver may have been manipulated to the downside. I think this was because we all had some belief that we had free markets and my suggestion to the contrary clashed with those core beliefs. Whatever the reasons, I got nowhere.

One good thing that developed out of all this was that I developed a deep knowledge of silver and the silver market. I heard every counter argument possible about why I was full of hooey about silver being openly manipulated in price, that strictly for self-defense against embarrassment I forced myself to learn everything possible about silver. I read everything about silver that was available and thought about it constantly. I wasn't looking to be a know it all, I just wanted to be sure I was correct about something important that I discovered that needed to be fixed. Fast forward ten or fifteen years and I became exposed to the Internet and began to read and write about silver on that medium. Please remember I had not been professionally involved with silver during this time, I just kept up with it privately. Quite accidently, I formed a relationship with Jim Cook, the president of Investment Rarities, in late 2000, when he asked me to write about silver for his firm's customers. This enabled me to write and think about silver full-time. This was like a ghetto kid who shot hoops all day long getting a scholarship or a professional basketball contract. I delved into silver with a new vigor.

Today, the allegations of a silver manipulation are not received with the universal rejection of 25 years ago. Of course, not everyone accepts the silver manipulation argument. Certainly, the COMEX and their new owner, the CME Group, continues to look the other way and tries to ignore the growing awareness of a crime in progress. The CFTC, under Chairman Gary Gensler, seems to be coming around, but is still ham-strung by past denials of a silver manipulation. And those who strongly denied a silver manipulation existed in the past are loathed to change their minds due to having to admit to being wrong. But more people seem to grasp the issue daily.

The very best thing about my allegations of manipulation in silver being ignored for almost 20 years is that the manipulation continued in force. Why this was so good was because the artificial low price did two things. It allowed regular investors to buy silver at bargain prices and it caused world inventories to be depleted because we continued to consume more silver than we were producing until 2006. The law of supply and demand is governed by price. Too high of a price and supply gets increased and demand is curtailed. Too low of a price and supply is restricted and demand gets increased. This is the basic cornerstone of any free economic system. Since the silver manipulation resulted in an artificially low price, we consumed way too much silver and produced less than we would have had the price not been depressed. While it was extremely frustrating for me to watch this evolve over the years, since I knew the price was manipulated but was unable to convince the regulators; I also knew that the law of supply and demand would ultimately result in a shortage and soaring silver prices.

Since I knew that those investing in silver would be richly rewarded, I held nothing back in my promotion of silver. Since I was convinced about the facts and that the manipulation continued and still continues to this day, I concentrated on convincing people to buy silver. Thanks to the many hundreds of articles that Investment Rarities sent to their clients and published on the Internet, the word got out and people bought silver, quite literally by the ton. This has turned out to be the greatest investment win-win story in history. You have to remember that not only was silver not promoted by traditional investment advisors, they openly discouraged its purchase. Despite the naysayers, over the past five and ten years silver has been the best practical investment anyone could have bought. Silver is up more than seven times from the lows. Based upon everything that I study, silver should continue to be the best investment going forward. Someday, it will be time to sell silver, but that day is not here.

Two years ago, I talked about the giant elephant in this room that represented the silver manipulation, and how too many industry observers pretended it didn't exist. To a great extent, that is changing. As more evidence rolls in that silver has been subject to a long-term price manipulation, it will be harder for that manipulation to continue. Even if the growing evidence was not enough to end the manipulation, I pointed out last year, as I have from the very beginning, that the manipulation would end due to an inevitable shortage. There are numerous signs that silver is experiencing a shortage in physical supply. The key takeaway here is that according to the immutable law of supply and demand, if a price of anything is suppressed low enough and long enough, a shortage must result at some point. It looks increasingly clear that silver is close to that point of shortage.

The best news of all is that until the silver manipulation is finally terminated, silver can be considered artificially depressed in price. That means it remains a buy or a strong hold, and not a sale. The fact that more people are becoming aware of the manipulation and there are now strong signs of a shortage developing, means the point of termination may be close at hand. That means that silver buying plans should be accelerated. It's hard to get a better set up than what we have in silver right now. We are seeing clear signs of an impending shortage while the price manipulation is still intact. I had always thought that the manipulation would over before any physical shortage hit. Now it appears likely that will have a collision between the two shortage and manipulation, and that smash up is likely to cause the price to explode.

In both my previous speeches here, I highlighted the differences between gold and silver; about how, over the past 70 years the world above ground inventory of silver bullion had fallen by almost 10 billion ounces to one billion ounces today. And how, over that same 70 years, the world inventory of gold had doubled to 5 billion ounces. This was an almost unbelievable transformation – from a situation where world silver inventories were much larger than gold, to a circumstance where gold is much more plentiful than silver. I made the key point that less than one tenth of one percent of the world's investors were aware that silver was rarer than gold, and as the true facts came to be known, it would be reflected in silver outperforming gold tremendously. That outperformance of silver compared to gold appears to be kicking in.

On my last two appearances here, the gold/silver ratio was around 70 to 1. Today, that ratio has tightened in to 45 to 1. The ratio movement can be misleading, as I try to regularly remind subscribers. The best way of fully comprehending the changes in the gold/silver ratio is by looking at it in ways that measure how well an investment in each would have turned out. If one would have put $10,000 into gold two years ago, at $985/oz, it would be worth $14,000 up almost 40%. But had someone invested in silver instead, at $14.40, the $10,000 would be worth over $21,000, up 112%. You would have made almost three times more by investing in silver than in gold. I believe that will continue to be the case.

If an investor had unlimited funds to be deployed, I would just say buy silver. But because investable funds are most usually not unlimited, I have been suggesting for the last ten years that those investors light on investable funds but heavily invested in gold, to switch some gold holdings into silver. To use gold as a source of funds, if need be, in order to buy silver. The facts argue that silver should do better than gold. For one thing, basic common sense should tell you that a commodity on the verge of a shortage should go up faster and stronger in price than a commodity not indicating signs of a shortage. I don't want to state categorically that gold is unlikely to ever go into a shortage scenario because you never want to say never. But because gold is not heavily consumed industrially, it makes a shortage in gold unlikely. That's not to say gold can't or won't go up in price, just that it won't likely be in a shortage. Silver is very likely to go into a shortage and that's a big plus for silver.

Plus, silver is much more under-owned than gold. Most of the big hedge funds, for instance, have bought gold in a pretty big way and very few have bought silver. That sets the stage for them buying silver at some point. Certainly, they won't be selling silver until they first buy it. The main reason silver should continue to outperform gold is there is much less silver available for purchase, both from existing inventories and as a function of new production being available. For example, the world needs to absorb about $70 to $75 billion of net new gold for investment purposes each year, while the number in silver is something like $4 or $5 billion. Because of that, it wouldn't take a big increase in investment buying greatly impacting the price to the upside.

Finally, last year I had some very good things to say about the new chairman of the CFTC, Gary Gensler. I have been asked if I have finally given up on Gensler doing anything about the silver manipulation and the enactment of legitimate speculative position limits. In a word □ no, I have not given up on him. The pace to legitimate position limits in silver has been agonizingly slow. But, at least there is a pace, something that was lacking until he became chairman less than 2 years ago. Yes, there is an ongoing silver investigation by the Enforcement Division of the CFTC, now in its third calendar year and that is shameful. But you have to put things in perspective. A manipulation that has persisted for decades must be given time to end. I sense Gensler is on the right path. Also, I must acknowledge the courageous role of Commissioner Bart Chilton over the recent past. There is no doubt in my mind that Gensler and Chilton are dedicated public servants whose primary interest is in making our markets more transparent and fair. But they won't succeed without out help.

Next week, I will publish my comments to the CFTC on the issue of position limits. I will ask you do the same. At first, I was tempted to skip writing to the Commission, yet again, on the matter of position limits. After all, many thousands of public comments had already been submitted in the past. But a number of things changed my mind. First, I heard from independent legal counsel who emphasized just how important it was to reply to this particular comment period. I also heard the same thing from a trusted source within the CFTC. Yes, there are some very honorable people within the Commission.

But the deciding influence was a thought given to me by my son, Ross. In discussing the momentous developments in Egypt and the Middle East, he pointed out the courage and conviction of the people demonstrating in the street and what they appear to be accomplishing. Compared to what they have endured, he asked how hard is it to write to the Commission on a matter of importance to those involved. Please keep that in mind when it comes time to write to the Commission on position limits.

Thank you for coming out today.

Ted Butler

February 17, 2011

A note to subscribers This was a preview of my speech tomorrow in Phoenix. I plan on publishing the Weekly Review this weekend, but due to logistics, there may be a slight delay.