

## February 18, 2015 – The Journey and the Destination

### The Journey and the Destination

I continue to receive comments and questions which I think reflect what most readers are thinking. All the comments are important to me and I can't help in concluding they are all related in one sense or another. Rather than reproduce them verbatim, let me paraphrase a few today. Tom asked if perhaps China was behind the manipulation and using JPMorgan as a front. He also questioned the US Government's role and whether the CFTC was being given orders to ignore the manipulation.

I speculated years ago that China might be involved in the COMEX silver manipulation and if the current reports are accurate as to the amount of gold the country may be buying, there would appear to be a powerful motivation for China picking up precious metals at depressed prices. Likewise, I can find nothing to rule out that behind the silver (and gold) manipulation lies the USG at levels higher than the CFTC. Motivation is important, but is hard to prove, no matter how plausible it may appear because it is often intentionally hidden.

For that reason, I try to stick the mechanics of the manipulation, primarily the nuts and bolts of COMEX futures positioning. I admit it probably sounds more interesting (and sensational) to speculate on world events and unproven motivations as being behind price changes in silver and gold, but I have chosen not to go that route. It may seem repetitive and sometimes boring to stick to the mechanics of the Commitments of Traders Report (COT) as proving the manipulation, but it has been both the proof and the most reliable explanation, both after and before almost all price movements. The COTs are the integral component of the price journey.

Two other readers asked a similar question in different words. John asked where were the big investors who should be descending on silver given all the facts and wondered if he was missing something. Keith pointed out that his Dad who has been buying silver for 30 years called his coin dealer (not one ever mentioned by me) and asked what the dealer's price prediction was and he was told by the dealer it was hard to say because the price was manipulated. Keith's question was when would the critical point be reached when enough became aware of the silver manipulation and took advantage of it (by buying), causing the manipulation to be broken by a physical shortage? As it turns out, I ask myself this question many times a day. On the price journey, the answer to this question is the destination, to my mind.

The facts are clear – with the exception of my speculation about JPMorgan (with or without the connection to China), no big silver buyers have emerged, despite a wider recognition of the manipulation than ever before. Certainly, many smaller silver investors have acquired silver over the past 15 years because the manipulation argument has been advanced on the Internet, but at this point, there has been no blossoming of large investor buying of physical silver tripping off a further rush by industrial users into a pronounced shortage.

While it is true that a snapshot picture of current circumstances does not indicate that a physical silver shortage exists, it also true that snapshots taken in the past have revealed different circumstances, as will future snapshots. In all things, there is a past, present and future. The trick is to put them into proper perspective. There is no question that from the perspective of an investor who purchased silver at much higher prices in the past, the current prices stink. From the perspective of an investor buying at current prices and what is likely to unfold in the future, it is different. And it's not just the silver price snapshot that changes, but conditions as well.

Fifteen years ago, talk of a silver shortage and wildly escalating prices were mocked (except by those who looked beneath the surface). By 2011, prices had risen tenfold and silver was closer to a worldwide physical shortage than ever in history. Currently we're back to the mocking stage, but that is as unlikely to remain permanent as it was before that. The 2011 peak in price and unprecedented physical tightness came as a result of a 65 year consumption deficit and the ongoing COMEX manipulation. Yes, it is true that same manipulation caused prices to then crash and the resultant cooling of investment demand relaxed the physical tightness; but the question is what now? Can the 10 billion ounce depletion of world silver bullion inventories (1940 thru 2006) be restored any time soon or ever, particularly at the current depressed prices? (No knock on gold, but the yellow metal has never experienced even one year of lower world inventories, to say nothing of silver's 65 consecutive years of inventory depletion). Can the increasingly blatant COMEX silver manipulation become permanent or self-perpetuating in light of these circumstances?

I know these things are hard to consider objectively in the face of continued deliberate price declines, but, nonetheless, remain at the core of the decision to invest in silver, namely, there is so little of the stuff remaining. As far as the question of why large investors haven't rushed into silver, I am convinced some will. Certainly, large investors have done so in the past, in the form of the Hunt Brothers and Warren Buffett. The case of Mr. Buffett is particularly instructive and, I believe, should serve as the model for the future. I've mentioned this in the past, but don't like to dwell on it because it may make me sound egotistical.

Buffett was interested in silver for many years and was attracted to it because of the well-advertised industrial deficit consumption pattern and evaporating world inventories. This is the same reason I and many others first got interested in silver. But because he couldn't figure out how the price could remain so low (\$4 to \$5) in direct contradiction to the law of supply and demand, he assumed the statistics showing more demand than production resulting in less silver in the world each year had to be wrong. By then (1996), I had discovered that not only was the price manipulated in COMEX dealings, but large amounts of physical supply were being dumped on the market by central bank leasing and that was why the law of supply and demand was circumvented in silver. I began publishing my findings on the Internet and shortly thereafter Buffett bought over 100 million oz of silver after being hesitant to do so for years. I can't prove Buffett bought silver because of my writings, but the timeline is uncanny.

I doubt there are any large investors studying silver as Buffett did 20 and 30 years ago, but I know there are many more super large investors in the world today than there were back then and there is less silver to go around as well. Therefore, I am more convinced than ever that it is only a matter of time before the large investor silver connection is made. If anything, the growing awareness of the silver manipulation on the part of smaller investors may have turned large investors off a bit; as in, how good could silver be if all these Internet conspiracy theorists embrace it? I think there is a good measure of truth in this and it's not helped when commentators throw in all manner of unfounded conjecture to the basic manipulation premise. This goes back to why I try to stick to the mechanics of the COMEX manipulation and refrain from what may be the motivation behind the manipulation.

I'm not trying to place myself on a pedestal, but much of the current commentary about the silver (and gold) manipulation is factually incorrect and misguided. As a result, sophisticated and professional investors, many of which are very large, are turned off by the unfounded commentary. In essence, misguided commentary is spoiling the dissemination of the true facts of the manipulation and inhibiting interest by large investors, in my opinion. Despite this, the true silver manipulation story is so compelling that it has only delayed large investor interest, not destroyed it forever. In the meantime, if someone concluded that there would never be a physical silver shortage or that large investors would never seek to acquire silver that would seem to fly in the face of both the past facts and future prospects.

Back to the present, it would appear the influence of COMEX futures positioning is at play in silver and gold prices. Certainly, if the price action for this week, month, year and years past is not fully explained by changes in the COT market structure, then I am at a loss to explain it in different terms. I actually feel bad for anyone who thinks silver and gold prices are dependent on any other financial news or events other than COMEX trading. That's not to sound cocky or say it will always be this way, because that's not the case in the long run. But it happens to be the case right now and has been for a very long time.

In simple terms, we went lower yesterday and today and in the case of every previous significant selloff in gold and silver because the commercials (led by JPMorgan) set prices lower through means of HFT and other dirty tricks on the COMEX in order to induce technical fund selling so that the commercials could buy. If this is not the story 100% of the time, then it is the story 99% of the time. In any case, this is the manipulation that increasing numbers of observers are coming to grasp. The clincher is that it is confirmed in evolving COT data. Never has there been a significant decline in the price of silver or gold without significant commercial buying.

That brings us to the current net short position. I would be surprised if the COT report to be released on Friday and covering trading thru the close of business yesterday, didn't feature hefty declines in the headline number of the total commercial net short position. For COMEX gold, considering there were two significant down days in the reporting week, yesterday when new price lows were set and last Thursday, Feb 11, when the 50 day moving average was first penetrated to the downside, I would guess another 30,000 net contracts or so were taken off the total commercial net short position. In silver, the 50 day moving average wasn't violated until yesterday, but there could have been a reduction in the headline number of as many as 5,000 to 10,000 contracts.

If I'm reasonably close on my guesstimates, we're probably past the halfway mark in undoing the commercial build up in total shorts since late December in gold and may be coming close to that in silver. But considering that gold rallied about \$125 from late December to the recent highs and has now given up \$100 of the rally (at the lows today), this has been a particularly successful commercial rig job so far. In silver, at the lows earlier today, close to \$2 of the \$2.80 rally was wiped out. Certainly, all the commercial contracts bought back recently were bought at lower prices than previously sold - that's the essence of the rig job.

If I had to speculate, I would guess that the big commercials will look to rig prices lower in order to buy more gold and silver short contracts back, but the exact timing and precise short term price direction is always unknowable. If it wasn't the most important influence on current prices, I would be reluctant to speak of the COT at all because it might cause a long term silver investor to abandon positions. Even though the COT market structure isn't bullishly configured, that doesn't rule out the possibility of sharp rallies, particularly after the recent sharp declines. But barring something out of the blue and non-COT related, it's hard to bet on the crooked commercials not prevailing as they usually do.

It is crazy and illegal that electronic trading on the COMEX controls the price of silver and because that illegal control has resulted in too low of an economic price, it is only a matter of time before enough investors around the world bring about an end to this scam and fraud. The key is to wait it out and the surest way to do that is by holding physical silver.

Ted Butler

February 18, 2015

Silver – \$16.50

Gold – \$1211

**Date Created**

2015/02/18