

The Critical Factors, Part 1<?xml:namespace prefix = o
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There are many factors that influence the price of any commodity or investment. In this, silver is no exception. However, some factors are necessarily more important than others. It's all a matter of putting things into proper perspective. I believe that recognizing just what the truly critical factors may be is the key to investment success. Even if you take the time and come to learn almost every fact there is to know about a particular investment, if you don't place the proper emphasis on the important facts, your chance for success is limited. Conversely, if you do keep it simple and focus on what's truly important, you are more likely to hit an investment home run.

I've spent the majority of my business life intensely studying silver. That's over 25 years now. I didn't intentionally plan to become immersed in silver one day two and a half decades ago. As a commodity broker and investor, I was just looking for my next short to medium term trade idea, both for myself and my clients. After that, I'd move on to the next attractive opportunity. Instead, I accidentally stumbled onto a situation that would alter my life in ways I never would have imagined. I'm going to try to distill what I've learned over the past twenty five years and to write about what I consider to be the three critical factors in silver. Today, I'm going to write about the first of these three factors. In future articles, I'll write about the other two. Please be forewarned - my very

specific goal is to convince you why you should buy silver without delay.

The first critical factor is the short position on the COMEX, the world's leading precious metals futures exchange. I know this is an issue that many may find confusing, particularly those new to silver. As such, I would avoid it if it were possible to legitimately do so. Unfortunately, it is not. But no matter how difficult the COMEX short position may be to fully comprehend, its impact on price, both past and in the future, must be discussed. It's that critical. I can offer a great incentive for you to try to wrap your mind around this silver short position. If you can do so, you will not only understand why this revelation so altered my life, you will come to appreciate why silver is the investment opportunity of your lifetime. The great thing is that even if you can't grasp the significance of the short position immediately, you don't have to despair. There are other critical factors that will convince you to buy silver. But please try. Those who have come to comprehend the significance of the COMEX short position, regardless of whether that was the critical factor for their silver purchase in the first place or not, share a unique commonality - they would never even consider selling their silver as long as this short position existed. It's that important and I hope it is something you come to share.

When I first uncovered the unique significance of the silver short position, over 25 years ago, the COMEX (The Commodities Exchange, Inc.) was a private organization, owned by its member traders. Subsequently, it was acquired by

the New York Mercantile Exchange, Inc., which eventually went public and was, in turn, acquired by the publicly-owned CME Group, Inc. a couple of years ago. The CME Group is the largest derivatives exchange in the world and I am keenly aware of this fact in my many accusations of their involvement in the silver manipulation.

This all started a long time ago for me. I remember distinctly the precise moment that the light bulb went off in my head. I was reading the commodity tables in the Wall Street Journal (in the good old days, when they published complete volume, price and open interest statistics). I was looking for something different about silver that could explain why its price didn't reflect the spectacular supply/demand fundamentals, first pointed out to me by a client, Izzy Friedman (who would later become my silver mentor). I had been looking, without success, for the explanation for why silver was so low in price despite the fact that the world was consuming much more than it was producing. After all, a deficit consumption pattern was the most bullish circumstance possible for a commodity and it made no sense for the price of silver to be low and comatose in such a deficit condition. Then it hit me like a ton of bricks.

When viewed by simply looking at the tens of thousands of contracts listed for each commodity, the open interest in silver didn't look out of line with any of the other commodities. But if you stepped back a bit and converted the open

interest statistics for all the commodities into the equivalent real world amounts, a completely different picture unfolded. A shocking picture. This is not a difficult exercise for you to do, as it involves only some simple computations. And it is just as valid today as it was 25 years ago. All I did was multiply the total open interest of each commodity by the contract unit of trade. Each commodity has its own industry standard contract size. In grains and soybeans it is 5000 bushels, in copper 25,000 lbs, in crude oil 1000 barrels, and in silver it is 5000 troy ounces. By converting the open interest of each commodity from number of contracts to the equivalent amounts in real world terms, the light bulb went off in my head. The puzzle of low silver prices was solved.

What I discovered was that the amount of silver committed by both longs and shorts on the COMEX was completely out of line with every other commodity traded on the futures markets when compared to world production, consumption and world inventories. The amount of silver "bet" on the COMEX was so much larger, by orders of magnitude, compared to every other commodity. Thus began my intense involvement in silver which continues to this day. Why did I feel this was such a big deal?

For one thing, futures markets are derivatives. By their very definition, such transactions are derived from some host market. In the case of physical commodities, or commodities of finite supply, the cash markets or real production and consumption and inventories are the hosts upon which

derivatives (futures) are based. As such, the derivatives markets can never be legitimately larger than the host physical markets from which they are derived. Never. Since the economic justification for futures trading is to allow real producers and consumers the opportunity to hedge, or to lay off the price risk, should they choose, it is not possible to hedge more than what is produced or consumed. If the size of the futures market was as large as or larger than total world production, as it was in silver alone, then it was clear that speculation, not legitimate hedging, was the cause.

This is an important concept to understand. A commodity futures transaction can only be either a speculative or hedging transaction. Speculation is neither good nor bad, but necessary to allow hedging and market liquidity. But the futures markets don't exist for the purpose of allowing people to gamble. Commodity law seeks to insure that speculation does not dominate trading and pricing. It does this by imposing legitimate speculative position limits to prevent such speculative dominance. Yet it was clear, then and now, that speculators on the COMEX were dominating the price of silver because of the size of the speculative position. Even though the COMEX was largely a paper market, the size of its total silver position was so large that it dictated prices worldwide. Further, since the long side bets on COMEX silver contracts were widely distributed among many different entities, while the short side was dominated by a small number of predominately large New York financial institutions, it was clear the short side was in control of prices. This is the issue of concentration

which has become so important today.

Since this goes to the heart of commodity law, I did what I thought was the right thing to do, namely, notify the regulators and explain to them the unusual circumstance in silver. Under the law of no good deed goes unpunished, all this notification got me was a regulatory runaround and an eventual enforcement action by the CFTC against me in an unrelated market, orange juice.

What is truly remarkable is how my initial discovery of the significance of the COMEX silver short position has not only endured for 25 years, but has become more critical and visible today. It has led to a continuous stream of compelling evidence of a long term manipulation in the price of silver, culminating in the identification of JPMorgan as the largest concentrated short on the COMEX. Now we await the resolution of this very visible and verifiable manipulation, either by regulatory intercession or a physical shortage.

What does the critical factor of the COMEX silver short position mean to you? Very simply, it means that as long as it exists, silver is a buy and not a sale. The COMEX silver short position is more important, by far, than economic conditions, currency concerns, inflation or deflation, country debt default, or even production or consumption. First and foremost, the COMEX short position has depressed the price, making silver a fabulous buying opportunity. While it

continues to exist, it is the wind at the backs of all silver investors. When the COMEX silver short position ceases to be out of line with all other commodities, particularly its concentrated nature, the sale of silver must be considered. But let me be clear. The end of the outrageous COMEX silver short position doesn't necessarily mean that silver must be sold, just that it will no longer be the gigantic support under the price. Buy silver while the short position exists in its current form; consider selling when it no longer exists.

On a personal note, I sense the COMEX silver short position will soon come under attack, either by regulatory reform, perhaps prompted by the financial reform package working its way to conclusion, or by cash market developments. Maybe JPMorgan will decide it no longer can afford to hold such an obviously manipulative position and moves to cover it. Whatever the reason for its demise, the dissolution of the COMEX short position will profoundly impact the price of silver upward. Never before has such a unique critical investment factor been presented to you. It is only a matter of time before enough of the world's investors grasp its significance and rush to buy silver, propelling the price skyward. You must buy silver before that occurs.

Ted Butler

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