

Old Stuff

I'll comment on this week's market action in a moment, but first I'd like to cover a topic that I thought I had beaten to death long ago. Believe it or not, I try not to repeat myself unnecessarily; however, I'd rather be safe than sorry in this case. During mundane Internet exploring, I stumbled across something that startled me.

Back in 2007 and earlier, I wrote extensively about the two types of silver available to investors which chose to employ professional storage of the metal purchased (rather than hold the metal in one's personal possession). When it came to the storage of industry standard 1000 oz bars, the two choices were insisting that serial numbers and specific weights of each bar held were provided and these bars were available for immediate delivery or that no serial numbers and specific bar weights were provided.

My opinion was that if no serial numbers or bar weights were provided, it was safe to assume that the actual metal didn't exist; in which case the investor was relying strictly on the storage provider's financial stability to back up the silver

investment. A reader at the time wrote to me that his brokerage firm would not provide the serial numbers and weights of the silver bars he had been paying storage on for years. I told him this was not right and much to his credit, he pursued the matter which ended in a settlement of a class-action lawsuit against the brokerage firm.

http://www.investmentrarities.com/ted_butler_comentary/10-23-07.html

Earlier in 2007, I wrote about another highly suspect form of precious metals storage; the pool account or unallocated storage account, in which I mentioned by name the two leading providers of such accounts at the time – Kitco and the Perth Mint. Because I was unsure of any legal blowback that might result, I had the article published on my own web site, even though it would be a number of years before I initiated this subscription service. At the time, I was publishing weekly articles on the Investment Rarities web site and my prime motive was not to involve them in anything as a result of what I wrote. Likewise with JPMorgan and the CME – I don't want to put anyone in potential harm's way by me stating these organizations are crooked.

<http://www.butlerresearch.com/buyerbeware.html>

In essence, I contended that pool and unallocated accounts offered low prices and zero storage charges for a simple reason – no metal backed the accounts

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and this exposed pool investors to great potential risk. I remember there was quite an outcry from those who sold or otherwise had an interest in these accounts, but after an initial clamor, everything calmed down and I wasn't sued or even threatened with legal suit. Having spoken my mind and gone on the record with my concerns, I went on to more important silver matters. Until the other day.

While banging away mindlessly on the Internet (I call it research), I came across a web site that featured the particulars of the ongoing bankruptcy proceedings for Kitco, which filed for reorganization three years ago following a large tax claim from Revenue Quebec. To make a long story short, Kitco denies the tax claim is valid and has been granted the ability to contest it while continuing as an ongoing business, which is the purpose of reorganization. The web site is that of Richter, a leading Canadian firm experienced in insolvency proceedings. <http://www.richter.ca/en/insolvency-cases/k/kitco-metals>

In perusing the latest financial report (click on CCAA proceedings, then Reports and then the report published July 7, 2014), I came across something that startled me. As of May 31, Kitco held \$260 million worth of pool accounts, including nearly 5 million oz of silver worth more than \$100 million and nearly \$130 million worth of gold. As a result, I wrote to the monitor (called receiver or

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trustee in the US) and inquired what assets or security backed the pool accounts. Despite an email exchange with the monitor, I still don't have a sense of sufficient backing of the pool accounts. If anyone can see anything that backs the pool account assets, please drop me a line.

It's hard for me to believe that \$260 million worth of precious metals pool accounts are held in a company undergoing reorganization proceedings, particularly when alternative investment vehicles are readily available. I doubt that any subscriber is holding these pool assets; but if you are, please make the switch immediately to a storage program where serial numbers and specific bar weights are given or, if you can, hold the metal yourself. It just dawned on me that I wrote an article with the title of "Make the Switch Now" back in 2002, but it looks like it has disappeared from the Internet. The best I can do is point to an article I did a month later in which I referenced that article.

http://www.investmentrarities.com/ted_butler_comentary/10-29-02.html

I shy away from giving specific investment advice, particularly regarding short term trading, but freely admit to perceiving silver going much higher in time. That said, please don't hold pool or other unallocated silver accounts of any type because even if the price of silver soars to the heavens, you could end up a loser if your pool account fails. That has to be the very worst outcome

possible.

On to newer stuff, the price action for the first two days of this week was punk; gold down more than \$40 and silver down by 75 cents (markets are still open as I write this). The sell-off started in the illiquid wee hours of Monday as have previous deliberate take downs. I can't help but note that yesterday was the cut-off day for the short stock report and the sudden drop in SLV on heavy volume may have involved some covering of a short position that jumped sharply in the last report. I'm not predicting what the next short report on SLV will indicate, but I am suggesting it will likely be lower than it would have been without the drop on Monday and Tuesday.

A manipulation doesn't exist only when prices fall, because that's not reasonable □ either a market is manipulated continuously or it's not manipulated at all; it's not manipulated only on the down days. What determines a manipulation is not short term pricing, but the composition of the structure of the market and how the price mechanism functions. By that measure, COMEX silver has been manipulated continuously for three decades.

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Because of the extreme market structure and the defective COMEX pricing mechanism, a fall in price has not been unexpected if the normal script is followed. This is one of the unfortunate realities of a manipulated market. Then again, a fortunate reality is that the same manipulation has created and explains the bargain basement price of silver and the long term investment opportunity the current price represents.

Also fortunate is the growing reliance on the COT report by more commentators to analyze and explain price moves. Some will claim the market will go up because of the COT structure and some will claim prices will fall due to the same structure, but the significance to me is different. My main takeaway is that the COTs explain all anyone needs to know in the short term; that's why I focus on them so intently. Those who begin to study the COTs and dig deeper into the market structure will, invariably, place increasing importance on it. I've observed this phenomenon first hand for years now and I think it's great. In fact, I'm perplexed by those commentators who haven't come around to the COT way of life.

The reason I think it's great that so many commentators have come to rely on the COTs is because these reports explain in detail the silver (and gold) manipulation. Let me go a step further - any analyst who objectively studies the

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COT report must, at some point, conclude that the silver market is manipulated. Of course, I'm not predicting that others who study the report will begin to label the CME, JPMorgan and the CFTC as being involved in a conspiracy and cover up in the manipulation of silver, but they could. What I am saying is anyone who truly comprehends the meaning of the COT reports must conclude (at least to themselves) that silver is manipulated in price. Anything short of that, in my opinion, would be dishonest.

This is a welcome development because if anything can expose and terminate a conspiracy and cover up it is the growing recognition that it exists. The lifecycle of a conspiracy is not extended as more observers become aware of it. What's occurring on the COMEX in silver, gold and copper has become more obvious to increasing numbers of observers and I don't see that changing. Instead, I see a point at which collective awareness reaches critical mass and that, alone, could undo the manipulation.

In the interim, we are stuck with the reality of a massively long technical fund and a massively short and concentrated commercial short position in COMEX silver, as well as a massively long technical fund long position in COMEX gold and copper. As such, no one should be surprised if the commercials rig prices lower to induce technical fund selling. I don't believe anyone should take that as

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acceptable and I, for one, intend to press the crooks at the CME, JPMorgan and the CFTC for engaging in and conspiring and covering up the silver manipulation.

I am still amazed that the equivalent of 240 million oz of COMEX silver were sold by commercials over the past five weeks at prices below the primary cost of silver production. I'd like to see someone try to explain how that could possibly be legitimate. While the long term prospective rewards of higher silver prices are as strong as ever, the collusive and manipulative sale of 240 million oz of COMEX silver will be the sole explanation of any near term price declines.

Ted Butler

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Silver - \$20.75

Gold - \$1299