

July 18, 2012 – The War on Silver

### The War on Silver

It has taken more than 25 years for me to fully comprehend a conclusion that I never wanted to reach, namely, that there is an organized war against the price of silver that has come to include the US Government. I think the US Government involvement came into being almost accidentally, but even if it was an accident of sorts, that does not diminish the serious nature of what must be described as illegal activity at the highest levels. I am conflicted between feelings of sadness and outrage.

Starting around 1985, I became convinced that the price of silver was being manipulated by collusive and concentrated short selling by certain commercial entities on the world's leading precious metals commodity exchange, the COMEX. Having a background in futures trading going back to 1972, it dawned on me that the concentrated and orchestrated short selling was dominating and, therefore, manipulating the price of silver. The very first thing I did after this discovery was to petition the regulators at the CFTC and the COMEX to alert them to the existence of the most serious market crime possible. My petitions fell on deaf ears but I continued to petition them through the present. Since this was in the pre-Internet era, I was limited in convincing others of the silver manipulation due to distribution restrictions. Communication was very different 25 years ago.

Around 1996, I was exposed to the Internet for the first time and began to write in my spare time on that medium about the silver (and gold) manipulation. As a result, more observers came to appreciate the manipulation and took up the cause of exposing and terminating this serious market crime. Were it not for the Internet there would be no broad discussion of a silver or gold price manipulation, even to this day. Certainly, the discussion has led to multiple official inquiries into a silver manipulation by the CFTC over the past ten years. I am unaware of any investigation in any other market based upon wide public contacts to the agency. For sure, there are many who still reject the premise of a silver or gold manipulation; but at least there is a discussion about it now, thanks to the Internet.

So why did it take me so long to recognize a US government involvement in the decades-old silver manipulation? For one thing, I still don't believe that the silver manipulation (which began in 1983) was a government creation from the get go. I know many believe the motive for the silver and gold manipulation is as a means for the US Government to help keep the dollar strong in currency markets. I don't agree. Instead, I believe the origins of the manipulation can be traced to collusive and concentrated short selling for profit by large financial institutions, starting with Drexel Burnham, then on to AIG Trading, Bear Stearns and finally to JPMorgan. These were the firms at war with higher silver prices, which the US Government subsequently joined.

The war against silver is not between producers and consumers, as these vital market participants interact in every market, as they must. All commodity producers want strong and consistent demand for their products from financially-healthy consumers who will continue to buy. While all commodity producers desire the highest price possible for their production, no producer wishes harm to the buyers of that production. There is no war between the actual commodity producers and consumers; both interact continuously under the law of supply and demand.

The war has been waged against all silver market participants by a few well-connected financial firms and banks for the purpose of price control. This price control enables JPMorgan and others to capture profits on a variety of derivatives transactions, including COMEX futures and options contracts. This is exactly the same motive that caused Barclays to manipulate LIBOR; interest rates were manipulated for mostly short-term payoffs on derivatives contracts valued by the rates being manipulated. Likewise, JPMorgan and others manipulate the price of silver on the COMEX to capture short term profits on silver derivatives contracts.

An important characteristic of the war on silver is that it is centered in the world of derivatives, as opposed to the actual world of metal production and consumption. The main objective of JPMorgan and the other silver manipulators is to take as much money as possible away from those holding the counterparty and opposite derivatives positions. Nevertheless, all producers and holders of metal are harmed when derivatives manipulation causes silver prices to fall for no legitimate supply/demand explanation, as is a regular feature of the silver market. That's because the size and intensity of trading in COMEX derivatives has grown to be much larger than the actual market for metal. In a very real sense, actual producers and holders of metal are innocent bystanders and victims of a private gun battle between opposing silver derivatives traders. Real producers and holders are being terrorized by a few derivatives traders, led by JPMorgan.

I suppose some might say that this is the silver big league and that there will always be winners and losers. I can understand that, but that implies a level playing field and no cheating. Quite simply, the game is rigged and JPMorgan and the others do nothing but cheat. The proof lies in the hugely concentrated short position held by JPMorgan ever since its takeover of Bear Stearns in March 2008. Throw in the crooked High Frequency Trading encouraged by the CME Group and you have all the ingredients necessary to prove manipulation and end the war on silver.

Yet the war on silver has persisted, despite the clear evidence that this market is manipulated. The reason it has persisted is because the federal agency whose primary mission is to prevent manipulation has decided to look the other way. I know that my discussions of market structure and concentration can get complicated and confusing to many, as much as I try to simplify it. But what I allege that is happening in silver is not over the heads of the CFTC. I take pains to explain it to them in their own terms and legal perspective and by using their own data. Because of those explanations, the CFTC has said it has been investigating for a silver manipulation for almost 4 years, but with no conclusion reached. By any standard, that's way too long.

What finally convinced me that the CFTC is aligned with JPMorgan and the other silver manipulators on the COMEX rests on a few specific facts. One is that the agency has continued to ignore the glaring concentration on the short side of COMEX silver by JPMorgan and a few other traders. Concentration is not some term I dreamed up on a whim; it is the CFTC's most important frontline defense against manipulation. That is why the agency publishes and monitors highly detailed concentration data every week for every regulated market in the Commitment of Traders Report (COT). The Commission doesn't publish this data on my request; the concentration data are the most important feature of the COT. What the COT report has documented for years is that COMEX silver is the most concentrated major market of all on the short side. That the agency won't address this fact is beyond troubling.

The second fact is the two unusual silver price events of 2011. In the first week of May 2011, the price of silver fell more than 30% and later, over a three-day period in September 2011, the price fell 35%. For a world commodity to fall that much in price within days is beyond unusual. It may be unprecedented, as I don't recall many or any such price drops in my 40 year experience with markets. Certainly, for such a price decline to occur in the same commodity within six months is unthinkable. Further, all the circumstances surrounding these two price plunges in silver point to these being manipulative moves, as nothing occurred in the real world of silver supply and demand to account for them. These price drops were shocking in that world commodities don't move like that for no reason.

I had been waiting for the CFTC to file enforcement charges against JPMorgan and the CME Group for these deliberate silver price smashes; or at the very least, for the agency to make special reference to these two unprecedented price declines. It would be impossible for any other world commodity under the Commission's jurisdiction to fall 35% in days without the agency commenting on the price fall. Yet there has been no statement and no enforcement filing from the CFTC in silver. At some point, one must conclude that the CFTC does not intend to file charges or comment on what transpired in silver. By reaching that conclusion, one must also assign an alternative explanation for the agency's lack of action. The most plausible is that the agency has thrown in with the likes of JPMorgan, the CME and the other silver crooks.

As I indicated previously, my best guess is that the CFTC was compromised in dealing appropriately with the silver manipulation by interference from the US Treasury Secretary who oversaw the takeover of Bear Stearns (and its giant silver and gold short positions) by JPMorgan. It now appears clear that JPMorgan extracted guarantees of future immunity for manipulation as a condition of the takeover. The Bear Stearns takeover gave JPMorgan a free "get out of jail" card from the US Treasury Dept for the continued silver manipulation. In the political pecking order, the CFTC is many rungs below the Treasury Dept. It was a deal structured that was not in the best interest of the American investing public

To recap to this point, there is a war on silver being waged by JPMorgan, the CME and others on the COMEX. This war necessarily includes innocent casualties throughout the world of real silver producers and holders, even though US commodity law strictly forbids such artificial price setting. Worst of all, it is now apparent that the prime market regulator and public protector, the CFTC, has thrown in with the crooks. This is so bad, on so many levels, that one must carefully consider the future investment merits of silver. Having already done so, please allow me to share my thoughts, especially in light of the ongoing wave of almost daily revelations of impropriety and probable criminal behavior on the part of the big banks. We certainly live in an unusual time.

Perhaps perversely, because of the ongoing silver manipulation and evidence that the CFTC may be complicit in illegal behavior, I believe the future price prospects for silver never looked better. Huh? Please hear me out. The continuing flow of news pointing to widespread wrongdoing by the big banks, including interest rate manipulation, increases the chance that silver has been manipulated. It appears to me that the punishment for institutional wrongdoing is quickly moving towards a criminal phase, which will likely include jail time. It would not surprise me if some regulators or self regulators were included in future criminal findings. Certainly, those swearing an oath to protect the public are not above the law. But how can I be positive about the future price prospects for silver in such an environment?

The simple fact is that silver has been manipulated for decades and that has not prevented it from climbing, at times more than any other commodity. The war on silver rages on, but it does so in starts and fits, with notable price advances having been recorded along the way. The silver war cannot be considered to be in its infancy. After all, I've petitioned the CFTC about it for more than 25 years, which is an extraordinarily long period for such a thing to exist. Like all widespread financial frauds, they become undone when a critical number of observers recognize the scam and adjust accordingly. Therefore, since the silver manipulation has been in place for so many years and is now more widely discussed because of the Internet, the odds favor it ending sooner, rather than later. I know that it feels like these crooks can pull it off forever, but common sense and historical experience suggest otherwise.

More importantly, this war on silver will eventually be decided on the physical level. Even though it is the derivatives world dictating (false) prices to the actual world of silver presently, it is impossible for that circumstance to exist indefinitely. Paper can overwhelm physical only as long as there is enough physical silver to go around. The point at which the current tight supply situation in silver slips into the slightest shortage, additional paper short sales won't satisfy new buyers of physical silver. That's not a theoretical discussion for silver any longer, as it had been prior to April 2011. For years, it was thought there would always be a sufficient amount of silver available, given the large world supplies thought to exist. But shortages were starting to come into place last year, which accounted for the run to near \$50. Yes, the deliberate price smash on May 1, 2011 broke both the silver price and the budding shortage; but it could have easily gone the other way and if it did, we would now be looking (way) down at the \$50 price mark. My point is that having come so close to a genuine silver shortage last year only increases the odds that a shortage will reemerge. The conditions that existed in the spring of 2011 are more likely to appear again than not.

While it is unfortunate not to have the CFTC as an ally in the fight against the silver manipulation, there never was any previous support from the agency. Instead, time after time, the Commission always sided with the big short silver manipulators. Undoubtedly, those past denials of a silver manipulation would create embarrassing questions about the agency's historical competence if it were to admit to wrongdoing in silver now. Still, I admit to a particular disappointment in Chairman Gensler and Commissioner Chilton since they had offered so much hope through their public statements about manipulation, concentration, position limits and the need to protect the public.

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The war on silver is real and ongoing. Because it has lasted so long, it may feel like a war without end. Because the war mongers appear so powerful and well-connected, it may feel like they are invincible. But feelings do not always project fact. The fact is that the silver manipulators have been in retreat. This can be seen in the overall rising price and the fact that previous silver short kingpins like Drexel, AIG and Bear Stearns have truly bit the dust. The recent news surrounding the current big silver short, JPMorgan, seems to project weakness and trouble, not invincibility. Since the CFTC never aided silver producers and investors in the past, there is no great loss in the agency continuing not to do its job.

If you are going to be in a war, I would think it is better to recognize that and react accordingly. That means immunizing yourself against the artificial pricing as much as possible. The best way to do that is by holding fully-paid silver positions and no margin. The worst way is by playing the very derivatives used to manipulate the price. This war is coming to an end and when it does, the wisdom of owning silver will become obvious. Lastly, it never hurts to let the regulators know what type of a job they are doing.

Ted Butler

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Silver – \$27.15

Gold – \$1575

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