

The Set Up Gets Better<?xml:namespace prefix =
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I'd like to comment on the recent sell-off in silver and gold to multi-month price lows. As usual, this was strictly a COMEX paper generated affair, as more paper silver and gold were liquidated on a net basis than in any other observable arena. It must be reiterated to the regulators that this is contrary to commodity law, which holds that the futures markets are intended to discover prices, not set them. There is little to suggest that it wasn't the COMEX setting prices. The rule of law is always undermined when many see what the enforcers of law refuse to see.

Aside from the regulators' dereliction of duty and the harm it brings to market integrity, there is much to celebrate. The continuing improvement in the structure of the market, as defined by the Commitment of Traders Report (COT), sets the eventual upward path of prices on the firmest ground. Yes, it is painful and frustrating to endure the repeated manipulation of the market by large commercial interests on the COMEX. But that's just the way it is. Yes, it runs against our pride when we go lower than expected. But we must take consolation in the knowledge that the more liquidation, the better. Yes, it always feels like the silver manipulation will last forever, especially at price bottoms. But no manipulation ever has or ever will last indefinitely.

What we must do is remain objective and stick to the facts. The fact is that we are at the best COT readings in gold and silver in a while. Extrapolating for what the next COT report should show (sometimes there are delays in reporting the true numbers when big moves come on the cut-off date, like yesterday), we are at the best combined gold and silver readings since February. Back then, silver traded below \$15 and gold below \$1050. Let me be clear in my point. The combined COT structure is now better than it was when silver traded below \$15 and gold traded below \$1050 in February, even though we are \$2.50 higher in silver and \$100 higher in gold. This is the essence of my COT analysis, namely, that the market structure is dependent on how many contracts have been liquidated, not on the price level. From the price lows and previous COT set up in February, we rallied more than \$4.50 in silver and \$200 in gold.

Does that mean we can't go somewhat lower in price at this point? Of course we can always go lower temporarily in price. But if we do go lower in price, it will undoubtedly come with a further improvement in the COT structure. That's why we must position ourselves to always be able to withstand lower price lows without losing silver positions. The only practical way to do this is to buy on a cash basis, not margin. (If you want leverage, stick to call options). What's the alternative □ trade in and out of the market, hoping to catch the exact bottom, risking the final silver blast-off without a full position? The most reasonable course to me seems to be being fully committed when the COTs and every

July 28, 2010 - The Set Up Gets Better

other fundamental indicator says to be all in. And then wait it out.

This is what I mean when Eric King asks me the bullish percentage and I reply it is 100% in silver, as I believe it is now. That means we don't need a further improvement in order to get fully committed. We may get a further improvement and lower prices temporarily, but we don't need it. If we get that further improvement, not only so be it, but it should be welcomed. It would make a great set up greater. That shouldn't stop us from rattling on the regulators' cages, because their dereliction in allowing this manipulation to continue is a separate issue.

I always feel that whenever we get the latest sell-off and great set up, like now, it will be the last great set up before the coming price explosion. I think that is logical, given the real facts around silver. So that is my feeling now. Only this time, it is not just a great set up, it is something more. Thanks to a profound new law which few fully comprehend, we are going to resolve this position limit and short concentration issue in silver fairly soon. I can't promise you that the CFTC will enact the proper 1500 contract limit in silver and crack down on the phony exemptions to position limits currently granted to JPMorgan and some other commercial manipulators. But I can guarantee you that together we will jointly present the issues in a manner that will bring the issue to rest. In the end, the CFTC will do the right thing, or we will know that they never will.

July 28, 2010 - The Set Up Gets Better

As I write this, an army of lobbyists is descending upon the CFTC to influence them not to enact proper position limits or crack down on exemptions to those limits. I'm sure JPMorgan and the CME Group are the largest factors behind this lobbying. I can also tell you that not one lobbyist in Washington is there to protect your interests or the interests of the free market. It's important to know how the game is structured. Therefore, we must be prepared to continue to represent ourselves at every opportunity. We will continue to do this by petitioning the regulators and lawmakers with arguments based upon fairness and logic and the spirit of the law, not on backroom influence peddling. The big shorts are powerful, but considering how far we have come already, I am certain we will prevail in the end.

Ted Butler

July 28, 2010