July 7, 2021 – Price Is Everything

Almost every aspect of life revolves around price â?? the price of food, shelter, transportation, as well as items not necessary to life. Price also includes the rate we command for our labor and the rate of interest charged and received. And there is always a lively debate on the rate of overall price increases, inflation, and the rare times prices decrease, as in deflation.

Nowhere is price more critical than in the world of investments. However, unlike the price of things we need to sustain life or maintain a desired standard of living, where the universal goal is the get the best (lowest) price for those items needed or desired, price is somewhat different when it comes to investments. Sure, there are some (like me and many of you) who strive to invest in the lowest priced investments (like silver), but increasingly, there are many more who seek investments where the price has been shown to increase.

Currently, the amount of money invested and being invested in assets that have risen mightily over the past decade, like stocks, bonds, real estate, cryptocurrencies and collectibles of all types dwarfs the amount of money that has been invested in assets that havenâ??t risen sharply over the past decade (like silver and gold). I have long commented how investors act collectively â?? buying en masse as asset prices rise and shunning those assets not rising in price. There is certainly a strong element of self-fulfilling behavior at play in this approach.

In broad terms and trying to avoid judgement as to which approach is best over the long term, let me term the two different investor profiles as those believing the current price is right and those believing the price is wrong. Certainly, as prices continue to rise, there can be little doubt that investors in those assets are correct and those investing is assets not rising are not as correct in their investment choices.

The problem for investors correctly positioned in assets that are rising and have risen dramatically is that price can change just as dramatically and as and when it does, investment results can suffer mightily. And itâ??s not just a matter of no longer experiencing superior investment returns, should the downturn in price be severe enough, the damage can be profound, including the loss of homes, employment and retirement savings, all painfully experienced less than 15 years ago.

The real damage caused by a sharp change in price for assets that have risen sharply, aside from the fact that such rises invariably attract great numbers of investors, is that leverage is typically employed and usually overdone. In the financial crisis of 2008, the main culprit was over-leverage in housing; this time the overleverage appears to be widespread in stocks, bonds and cryptocurrencies. So, the danger, as I see it, in those assets that have risen the most is that not only is collective investor participation extreme, it is also heavily-margined in one form or another. Not only does the possibility exist that great numbers of investors will seek to exit highly valued assets at the same time, a good number of those investors, including very large institutional investors, may be further motivated by margin calls.

In contrast to the investors who perceive that the price is (always) correct, letâ??s consider the investors who believe (as I do) that the current price is often wrong and not fully reflecting actual value. And to get specific, no price is more wrong than the current price of silver. As you know, I insist that the price of silver is suppressed and manipulated by four large short traders on the COMEX, and, by definition, nothing could be more wrong than a manipulated price. But, in addition to the price of silver being artificially suppressed in price, which all things considered would make it undervalued and an investment bargain, there are a number of other remarkable consequences that are noteworthy.

One consequence of silverâ??s artificially suppressed price is that it greatly reduces the chance and extent of price risk to the downside. In a world where serious consideration of investment risk is often tossed out the window, an asset deemed severely undervalued has, automatically, a much lower risk factor. Yeah, the commercials crooks on the COMEX rig prices lower at will, but those selloffs have become increasingly muted.

Another consequence of silverâ??s already low price is the affect it has on the overall total worth of the asset class itself. Â Whereas the total worth (market capitalization) of the worldâ??s asset classes ranges from the trillion-and-a-half-dollar market cap of cryptocurrencies to the tens and hundreds of trillions of dollars of market caps for real estate, bond, stocks and gold, the total worth of all the silver in the world (in 1000 oz bar form) is a piddling $50 billion or so.

In addition to the obvious risk-reducing and profit-enhancing effect this has on silverâ??s future investment returns, there is an often-overlooked additional benefit to silverâ??s miniscule market cap relative to all other assets. By its (tiny) size alone, silverâ??s market cap makes it uncorrelated to all the other asset classes, including, in my opinion, to gold, where there is 100 times more gold in bullion form in the world than there is in silver in dollar terms. What this means is that it wouldnâ??t matter a whit if all the silver bullion in the world was sold (if possible) and the proceeds were put into gold or other asset classes, but if the slightest amount of gold or stocks or bonds were sold and put into silver, the price of silver would soar.

Finally, one often-overlooked factor in silver is that unlike all of the bigger asset classes (possibly excluding gold), I detect very little actual leverage or borrowing against the 2 billion oz of silver bullion that exists in the world and even less borrowing in the retail forms of silver that exist. Silver investors usually pay cash on the barrelhead. Yes, I know that COMEX futures trading is conducted on margin (like all derivatives markets) and that several hundred million ounces of silver has been lent by JPMorgan to other banks (mainly Bank of America), but I know of no one who owns physical silver who has borrowed heavily against it.

Published statistics indicate hundreds of billions of dollars have been borrowed against stocks and the real unreported figure is thought to be much more and trillions of dollars have been borrowed against real estate (mortgages) and bonds. Not only is it impossible to borrow hundreds of billions or trillions of dollars on an asset class worth $50 billion, my sense is that those holding the 2 billion oz of silver bullion in the world and all the coins and smaller bars that exist have borrowed very little, if anything against that silver. My point, of course, is since so little leverage exists on the physical silver that exists in the world, the possibility of some downward price spiral caused by margin liquidation simply does not exist. If anything, the real margin exposure in silver is held by those short futures or by those who borrowed silver from JPMorgan.

Therefore, with no real threat possible that the physical silver in the world can be sold and liquidated due to overleverage (a threat that exists in other asset classes), those aligned against higher silver prices must resort to different methods to contain prices. We see this in just about daily price maneuvering on the COMEX, including yesterday and today, when for no apparent legitimate reason prices suddenly get bombed lower. Itâ??s always a case of crooked COMEX paper positioning and never a case of legitimate physical selling.

Interestingly, while I would certainly classify silver as an exceedingly undervalued asset flying well below the collective radar of the worldâ??s investors and because of that possessing extremely favorable risk/reward characteristics, that is not to say that silver will remain classified as such an unloved and undervalued asset forever (or for long). Ironically, there will come a time when a rising price of silver will gain the attention and collective interest of a certain percentage of the worldâ??s investors. Price is everything and that includes silver. At some higher price, silver will be sought out as a desired investment by some of the same investors who shun it now. What is the price that will motivate investors to collectively become attracted to it? I believe it starts over $30 and intensifies the higher we go.

Iâ??m mindful of my recent extremely bullish conclusions for silver (and gold) and while the recent downdraft in silver (not so much gold) flies in the face of those conclusions, I see no change in the underlying reasons for my bullish conclusions. I am still thunderstruck by the amount of short covering by the 4 big silver shorts over the past two reporting weeks. I had been expecting the 3700 contracts of big 4 short covering in the prior reporting week (ended June 22) and, in fact, was slightly disappointed it fell by a few hundred contracts shy of what I had in mind. But last weekâ??s 5000 contracts of additional big 4 short covering, coupled with raptor long liquidation just about blew me away.

Therefore, I was more than a little disappointed in seeing silver prices smashed following yesterdayâ??s higher opening (and again this morning). Doesnâ??t the market know it is supposed to go higher when I say so? In all seriousness, Iâ??m of a mind this recent price weakness is related to the fly-in-the-ointment factor I mentioned on Saturday, of the sharp increase in silver total open interest on Friday as price rose to (and temporarily slightly above) the 100-day moving average. The most plausible explanation for the increase in total open interest was non-commercial buying and commercial selling (specifically of the big 4 variety). Therefore, I was relieved to see total open interest decline in yesterdayâ??s data, as it suggests commercial short covering. I suppose we might never know for sure what happened on Friday and yesterday because if there were offsets, we may not see that in this Fridayâ??s COT report.

Of course, itâ??s always possible for the big silver manipulators to rip prices lower still, as such things canâ??t possibly be fully known in advance. But it doesnâ??t change the fact that the market structures in both silver and gold are still extremely bullish. As always, lower prices should result in even more bullish structures, although if anyone is counting votes, put me down as this being bullish enough.

As far as what to expect in Fridayâ??s COT report, itâ??s hard not to imagine deterioration (non-commercial buying and commercial selling) in gold, considering prices finished higher over each day of the 4-day reporting week, penetrating and closing over the 100-day moving average for the first time in two months. Total open interest in gold did rise around 12,500 contracts over the reporting week, further cementing thoughts of commercial selling. One anomaly was the appearance of new spread creation which might affect the net positioning change.

Itâ??s a bit different in silver, in that while prices did hit successive new highs over each of the 4 trading days, penetrating the 100-day moving average, there were sharp late-day selloffs as well and silver never truly closed over that average (as was the case in gold). Plus, total open interest ended unchanged over the reporting week, although deliveries may be camouflaging real increases.

Increases of commercial selling in both gold and silver shouldnâ??t radically alter the market structures in each and, of course, what the big 4 did in silver will be my primary concern.

In the getting it off my chest department, I am appalled by the now-obvious intent of the US Mint to influence silver prices by refusing to produce Silver Eagles for the past three months, despite the public law requiring it to do so. Iâ??d estimate that some 12 million oz of Silver Eagles should have been produced and sold if the Mint was abiding by the law. Yes, I understand that physical supplies of silver are extremely tight, but itâ??s not up to the Mint to take such matters into its own hands. Of course, I know full well that the US Mint would never undertake such a course on its own and was ordered to stop minting Silver Eagles by someone higher up in the Treasury Dept, but that hardly makes it right.

Iâ??ve never been convinced that the US Government was behind the decades-old COMEX silver manipulation and still feel that way, but the unilateral action to cease Silver Eagle production is beyond the pale. First, we have decades of malfeasance by the CFTC in not dealing with a concentrated short position so obvious that could have bit it in the butt and now we have a heavy-handed attempt by the Treasury Dept to influence silver prices. Look, the world isnâ??t going to come to an end just because silver prices rise and I canâ??t envision silver being substituted for Bitcoin for ransomware payments. Enough already â?? the Feds should stay the heck out of silver (and stop coddling the 4 big shorts).

At publication time, the increase in gold prices since Fridayâ??s close offset the decline in silver prices and the 8 big shorts ended $200 million worse off than they were on Friday, putting their total losses at $10.8 billion. Iâ??m including an interview I did with Jim Cook of Investment Rarities, Inc. to close things out.

INTERVIEW

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Cook:Â Lots to talk about with silver these days.Â Whatâ??s making you so certain of the price rise ahead in silver?

Butler: The market structure on the COMEX has improved dramatically. Then we have the supply-demand fundamentals along with surging investment demand. The most dominant silver price manipulator JP Morgan, has stopped shorting silver and the government regulators may be looking at the silver manipulation.

Cook:Â When you say silver manipulation, what exactly do you mean?

Butler:Â Itâ??s simple. Four large trading companies (banks) have acted in unison to sell silver short. This concentrated selling is always followed by buying when silver prices drop.Â Itâ??s been hugely profitable for them, but at the same time itâ??s illegal.

Cook:Â You say the government is looking at it. What happens if the government puts an end to it?

Butler: Then the game is over for the big shorts and silver prices are free.

Cook:Â Without getting too complicated what do you mean when you say the market structure on the

COMEX has improved?

Butler:Â On the recent $2 drop in silver the big shorts bought back as much of their short position as they could.Â We are now at the point where they usually add shorts on a rally.Â If they donâ??t add new shorts, silver explodes in price.

Cook:Â Is silver still cheap from all of this?

Butler:Â If there is one thing that just about everyone agrees on is that silver is cheap. The only thing missing is an explanation for why silver is so cheap and manipulation is the only plausible answer.

Cook: Okay. What are the supply and demand fundamentals you mention?

Butler: More demand than supply in every aspect of silver-retail, wholesale, industrial and investment. Look at your own business, your biggest concern is finding product to sell.Â How many times has that occurred in the fifty years youâ??ve been in business?

Cook:Â I see that the Silver Institute and others are forecasting a supply deficit this year and for the next ten years.Â What do you say to that?

Butler:Â Nothing could be more bullish for price than a supply deficit.Â However, the price hasnâ??t reacted to this fact. The big four shorts have been choking off the price rise.

Cook: Thatâ??s what youâ??ve been railing against for years, right?

Butler:Â Exactly.Â I know it gets old hearing this over and over but that doesnâ??t change the fact that itâ??s true.

Cook:Â How do the people who donâ??t believe the manipulation story explain how cheap silver is in the face of a shortage and a deficit?

Butler:Â They donâ??t.Â Iâ??ve never heard a logical anti-manipulation explanation.

Cook:Â How high would silver be if these short sellers never existed?

Butler:Â A lot higher than currently, but the concentrated short position has existed for 40 years. The real question is what would the price be when the size of the concentrated short position in silver gets in line with the other commodities?

Cook: Ok, whatâ??s the price then?

Butler: Well, here I start sounding like a madman. In a blow-off, we could go 10, 20 or 30 times higher. We may not stay at those levels, but they could be hit.

Cook:Â High prices will cure a deficit, wonâ??t they?

Butler: It always has since prices have existed.

Cook:Â What happens if the industrial users canâ??t get all the silver they need?

Butler: The same thing that always happens when a shortage occurs, the users rush to buy and protect themselves causing prices to soar further.

Ted Butler

July 7, 2021

Silver – $26.25Â Â Â Â (200 day ma – $25.79, 50 day ma – $27.13, 100 day ma – $26.59)

Gold – $1805Â Â Â Â Â Â Â (200 day ma – $1832, 50 day ma – $1833, 100 day ma – $1790)

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