Hey Nineteen<?xml:namespace prefix = o ns = "urn:schemas-microsoft-com:office:office" />

I started writing this piece early this morning, as silver lingered some thirty cents below the $19 mark. At first, I was wary of using the title from the old Steely Dan song because I thought we might not get to that level today and I didn't want to put the hex on it. Later on, I started thinking we may just blast right through it. That's the perils of short-term prognoses.

Nineteen is an interesting number in silver. Since the $21 high in March 2008 (when JPMorgan took over Bear Stearns), silver has managed to cross the $19 mark three times prior to today. Each previous time the stay above $19 didn't last very long. The overall set-up looks more favorable this time for further price advances than the last three trips above $19, but the important point is not to lose positions if we fail again temporarily. Please remember, the silver race will be won by those who persevere, not necessarily by the speed racers. At some point we will look back at $19 as a floor, not as a ceiling.

I would like to point out two things continuing to capture my interest. One is the current relatively low volume in COMEX silver paper trading. Barring some big surprises in coming COT reports, it's hard to radically alter the basic structure in existing positions on low volume. Therefore, the big concentrated silver short position will remain intact unless it is delivered against or bought back in COMEX trading. To be fair, long positions also can't be radically altered on low volume. But here the advantage looks to be with the longs to my way of thinking. Even if the commercial crooks succeed in slamming the price again, that price drop should only be temporary. But let me emphasize that I'm not expecting such a sell-off. In the long run, the odds are against the shorts, as the longs would appear to be in much better shape to wait out the passage of time. If I were a short, I don't know how I would sleep.

The other thing I've been focused on is the heavy turnover, or high volume of COMEX silver warehouse movements. The movement, both in and out, of silver inventories has been nothing short of frantic for the past few weeks and months, even though overall inventory levels have remained fairly stable. In my mind this confirms that the silver on deposit at the COMEX is not available for sale and new stuff must be brought in to satisfy the demands of those seeking to remove COMEX silver. The turnover has been averaging close to 25% or more of all the silver produced daily in the world. In my experience, that's unprecedented. This silver turnover is in sharp contrast to the movement of COMEX gold or copper inventories. It tells me that the wholesale silver market is as tight as a drum.

Whether we blast off from here or are forced to suffer one more sell-off will be known soon. What we know already is that the best approach at this point is to hold on tightly to existing positions. We are still set up for much greater potential advances than we are for price declines. In other words, the risk/reward ratio for silver is favorable. That's the first thing to consider in any investment.

Ted Butler

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