

June 26, 2013 – Last Man Standing

### Last Man Standing

I started writing this piece just after the COMEX opening today with gold having been down more than \$50 (to \$1223) and silver down more than \$1.20 (to \$18.36) overnight, both dramatic new price lows. Not knowing where prices will finish today, I'll share some observations while the day unfolds. First, the level of price control has progressed to the point that surpasses anything I could ever have imagined. And I have imagined quite a lot about price control, having written about a silver price manipulation for around 28 years or since Ronald Reagan was president.

The pattern so far today fits the profile that features disproportionate price drops on very light volume at the thinnest of times of market liquidity. Then trading volume increases following the price drop – the clearest current sign of price manipulation. It would be one thing if prices declined because of sudden widespread investor selling, but quite another that the investor selling only comes after prices have been rigged lower. This smash started at around 9 PM NY Time when little real trading occurs and few markets are even open. In a relatively short period of time, both gold and silver prices were put down substantially. The only twist to this intentional price smash so far is that the volume is proportionately much heavier in gold than in silver from what usually occurs. (Considering roll-over volume ahead of silver's first notice day, this pattern prevailed throughout the day and prices have remained close to opening levels).

I'm sensitive to this lighter than usual silver volume because it exemplifies a broader pattern that may highlight some new big differences between gold and silver. Although there has been some liquidation in the big silver ETF, SLV, over the past few years, months and days, it has been nothing compared to the liquidation in the big gold ETF, GLD, this year. I keep expecting the outflows of gold to end in the GLD and the outflows persist. I think the actual GLD liquidation is ultimately bullish because I'm still convinced that JPMorgan is the big buyer of this metal, along with COMEX contracts and other forms of gold, silver and copper. But the GLD outflows are extreme and persistent, particularly when compared to SLV.

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Here are the facts — since the beginning of the year, more than 28% of the gold in GLD has been redeemed by investors or more than 12.2 million oz on year-end holdings of 43.4 million oz. In SLV, there has been a redemption of less than 5 million ounces, or less than 2% of the 322 million ounces held in the Trust at year end. Please note the difference — less than 2% in silver versus 28% in gold. In dollar terms it's even more lopsided; the value of the gold liquidated in GLD has been close to \$20 billion vs. the less than \$150 million of silver liquidated in SLV. Why has there been a much more extreme liquidation in GLD than in SLV?

My main takeaway on the much higher relative ETF liquidation in gold compared to silver is that it highlights the difference in mindset between gold and silver investors in these ETFs in a way that wasn't previously known. It's hard for me not to conclude that it was more important to gold ETF investors for the gold price to be maintained than it was to silver investors. In other words, GLD investors were more price-sensitive and held gold for different reasons (inflation, the dollar, etc.) than silver ETF investors. After all, the price of silver has declined more than gold this year, so one would think there would be more relative liquidation in silver ETFs than in gold ETFs due to declining prices. While this ETF redemption pattern can change, until it does it is rational to assume that gold and silver investors may have different motivations and reasons for holding each.

It's no secret that I favor silver over gold for the reasons constantly advanced on these pages. Silver is more utilitarian and necessary than gold in industrial consumption terms, there's less silver bullion relative to gold in the world as a result of decades of silver inventory depletion, silver is vastly more likely to move into a physical shortage than gold and the price of silver is way too cheap compared to gold. As for why silver is down more in price than gold, that's easy — silver is more manipulated by the crooks at JPMorgan.

Considering that silver has dropped more in price than gold yet has only experienced a tiny fraction of the relative ETF liquidation leads me to the conclusion that silver investors are not being fooled by the manipulated price action and are holding for reasons different and more specific than gold investors. That's not to say that silver investors have suffered; just that they haven't dumped as much as gold investors. The purpose of objective analysis revolves around interpreting verifiable facts into the most logical conclusions. If you have any other explanations for the vast difference in the behavior of gold and silver ETF investors, please drop me a line.

I don't mean any of this to be pejorative to gold ETF investors; but it seems many were holding gold only as long as prices didn't buckle. The fact is that I have been bullish on gold for reasons related to COT market structure and the accumulation of gold by JPMorgan and, despite that, prices have still dropped sharply. I was and am still concerned about the sustainability of extremely high gold prices, strictly due to total value and investment flow amounts and I suppose I should have been more concerned by that than by my bullish perceptions of the COT and JPMorgan. I still think gold can rally sharply by hundreds of dollars, but I am also still hard-pressed to envision a world with gold valued at many thousands of dollars per ounce.

I am still taken aback by the outright hatred for gold and the delight so many mainstream media commentators take in its price bashing. Just as I am taken aback by the CFTC's corruption in not addressing this ongoing crime. Silver comes in for a bit of hatred and delight in its fall, but not to the same extent as gold. I suppose since gold has been promoted as the hedge against everything else, that the delight in its fall is understandable. But I am also more amazed at the reasons given for gold's (and silver's) decline because they appear so wide of the mark, save margin liquidation. (Although there was a mainstream analyst who did raise the manipulation issue on CNBC today). In the end, I guess it doesn't matter what reasons are given as the price has been smashed regardless of the reasons. But that doesn't mean we can't learn from the current price debacle in gold and silver and use that knowledge in anticipating what will occur in the future.

If I am correct to note the big difference between gold and silver investors to date, I can't help but believe that will determine future relative price action. I have difficulty seeing all the gold ETF investors who liquidated this year turning around on a dime to repurchase what they just sold in GLD. That doesn't mean we can't have a hellacious rally in gold on short covering on the COMEX, but that's separate from the GLD reinvestment discussion. I'm inclined to think that the majority of those GLD investors who sold this year won't rush back in. On the other hand, I can see the holders of SLV as more likely to continue to hold rather than liquidate at this point (although I would expect some liquidation due to the price action today).

If anything, I can see existing SLV and other silver investors as likely to add to holdings in time to take advantage of the wickedly lower price. This is borne out in the relatively much stronger silver demand than gold witnessed on the big price declines to date. I believe silver and gold are different and so are their investors. In fact, the biggest con and proof of price manipulation is in the relative lockstep in which gold and silver prices have been moving lately. Silver has fallen more than gold in percentage terms, but in the past silver fell much further on price drops.

Today I have the new impression that silver has been marked down in price, almost in exactly the same amount as gold, to legitimize the obvious gold manipulation. Without a commensurate silver move lower with gold, silver might have attracted too much attention and potential buying. I've always been convinced that the crooks at JPMorgan play one metal off against the other, but this was slightly different version of the scam.

One of the main themes I have highlighted in favoring silver over gold is the relative investment dollar flows necessary to drive prices of each. The price carnage this year has resoundingly continued to favor silver. At some point, prices must stop falling, so it's instructive to revisit the relative money flow thesis. If you remember, the world needs to absorb 5 million oz of gold each month and 10 million oz of silver to take in the new metal produced in excess of total fabrication demand in each.

At current prices, the world's gold investors need to spend more than \$6 billion each month to maintain the price, while the number in silver is now less than \$200 million each month. It wasn't too long ago, at \$1600 gold and \$35 silver, that the investment money required each month in gold was \$8 billion and in silver \$350 million. My point is that the sharply lower prices in silver have lowered the threshold dollar amount needed to extremely low levels. Not today, perhaps, but in time this will matter. Also, the entire 1 billion oz of silver bullion in the world is now worth less than \$20 billion, while the entire world's 5 billion oz of gold is still worth a proportionately much larger \$6 trillion. These are relative valuations screaming for radical readjustment. The easiest readjustment lies in sharply higher silver prices.

Being around the markets for as long as I have, I have resisted the temptation to flat-out state that silver prices can't possibly go lower than any certain level; although it is just as true that I have thought the bottom has been put in on many recent occasions. Right now we are caught between unreasonably low prices that must adjust to the upside at some point and an historic deliberate manipulation to the downside of unprecedented proportion that must end. Accordingly, I feel it is way too late to even think about selling and the only reasonable thoughts should be of where to buy at the lowest possible price.

One other new thought that occurred to me is that an unintended consequence of the price smack down in silver has resulted in the re-appearance of a theme of mine from yesteryear – the great opportunity that silver represents. Put the price of anything low enough and it can become a compelling buy. Put the price of silver low enough and it becomes a lot more than that. Here's a note I sent to Investment Rarities this morning –

## An Opportunity Reset

The extreme price smash, while painful to existing holders, represents something else completely to new silver investors. The fact that there is no legitimate reason for the drop, away from price manipulation, not only does not undermine the opportunity in buying silver, it enhances it.

Silver prices have become so depressed and unreasonably cheap, that what has been created is the rarest of circumstances – a second chance at buying what has been the best investment asset at a bargain price. While I suppose it is natural to moan about the loss of value (I confess to doing that), that does not detract from this being the ideal time to buy silver. Rather than view it as the end of a magnificent run, I can't help but think of it as the opportunity of a lifetime making a u-turn and giving everyone who chooses a second chance to get on board.

I can't help but think that we are situated price-wise, adjusting for everything that has occurred since then, at the equivalent of \$4 or \$5 or \$6 ten years ago. The biggest similarity is that the one thing that is most out of balance is the price itself. I'm not talking about any inflation adjustment; I'm talking about an adjustment for all the known facts over the past ten years. Sure, back then, silver had been depressed for years and decades; this time it's been a relatively sudden down move. But the common denominator on both occasions is that the price has gotten stupid cheap.

What's stupid cheap? It's a price that can't be sustained long term, for the impact of what it will do to the law of supply and demand. Simply put, the price of silver is at a level that can't be sustained indefinitely for real world supply/demand considerations, including production costs and ultimate investment demand. Can it go lower in the very short term? Maybe. Must it go higher in the long term, whether it goes lower or not short term? I can't see how that won't happen.

I think the real key here is to buy silver with the same mindset that folks bought it at \$5, namely, buying it with the intention of holding it for a long time in order to sell it at a stupid expensive high price down the road. Just like one would buy a piece of raw land with the intent of putting its daily value out of mind. That's what the most successful holders did ten years ago and what astute holders and buyers of silver will do this time around. It took a crushing price decline to create the opportunity, but how else could that opportunity have been created?

Ted Butler

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Silver – \$18.60

Gold – \$1228

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