

June 6, 2012 – Facing Reality

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A subscriber asked me to comment on an Internet posting that included an email response that CFTC Commissioner Bart Chilton had agreed be made public.

<http://www.silverdoctors.com/bart-chilton-silver-investigation-to-conclude-by-september-if-not-sooner/> Coincidentally, when I received the subscriber's email, I had been going through a long overdue clean up of old papers on my desk that had accumulated for the past few years. (Yes, I had been ordered to do so). I ran across copies of email correspondence I had with Commissioner Chilton back in March thru May 2008. That correspondence was requested by him to be off the record back then, so I will honor that request and not reveal the details. But the past and present email exchanges contributed to a strong sense of déjà vu.

In the post referenced above, Chilton indicates that he expects a resolution of the almost four year old silver investigation in the next few months. Similarly, the old email exchange I had with the commissioner occurred just prior to the May 13, 2008 release of the Commission's 16-page public denial of a silver manipulation. I had first contacted Commissioner Chilton in November of 2007 about issues related to silver manipulation and that had resulted in a private email exchange with him until the May 2008 public letter. After that, there was no further private exchange. http://www.investmentrarities.com/ted_butler_comentary/11-13-07.html

In addition to the sense of déjà vu in reading what was basically the same message both now and back then, I also had a moment of clarity. Not only had I seen this movie before, I remembered how it ended, namely, with another whitewash report from the CFTC that everything was fine in silver and allegations of manipulation were unfounded. It seems to me that there can be no other outcome this time. There is no way that the agency ever comes out and admits what many thousands of observers know to be true – that the price of silver is manipulated and has been for the past three decades. In other words, it's time to face reality.

There was no single catalyst behind my realization that the CFTC would never admit that there was anything ever amiss in silver, no matter what the evidence. That's the funny thing about reality — the truth is always there; it's just a matter of seeing it. Even more remarkable is that despite my new clarity, I can honestly say that I wouldn't have altered my approach over the years of petitioning the agency to end the termination. Neither do I intend to radically alter future efforts to get the Commission to do the right thing. That may sound contradictory, but it comes down to this — we all have to do what we know to be the right thing and not be discouraged if someone else (the CFTC, JPM, CME, et al) doesn't do likewise. That way, there is never the need look back in regret.

I must admit that the reality of the CFTC never publicly moving to end the silver manipulation has had a calming effect on my outlook. For one thing, it certainly lowers expectations and reduces the chance of disappointment. Even more important, the new reality helps explain so many missing pieces of the puzzle. The very best thing, for me, is that despite the recognition that the agency will never admit to the manipulation, it doesn't change the basic advice I have offered for years of buying and holding silver on a non-margined basis. Instead, reality points to that approach as being the only sound approach.

To be sure, there are some good things about the new reality and some bad things as well. Let's cover the bad things first. It is very bad that a federal agency created to prevent manipulation and punish its perpetrators has done neither. That the CFTC has stood by and let JPMorgan and the other collusive commercials victimize innocent market participants is shameful beyond description. Particularly egregious is the agency's failure to lift a finger amid the two great price smashes of 2011, when silver twice fell (was pushed) 30% and 35% within a few days for no legitimate reason. This is not something that has ever occurred in a world commodity in history, to my knowledge. In fact, it is virtually impossible for such a move in a free market. Yet the Commission has said or done nothing about the two most manipulative takedowns in history.

I think I know why the CFTC has looked the other way. For them to admit now of any wrongdoing in the silver market would bring disgrace and scorn on the agency for not having done so many years earlier. There is no way they could spin their way out of that. The easiest course for them is to stall and deny; to do otherwise would jeopardize the agency's very existence. That's why there will never be a finding by the CFTC of silver being manipulated. When I stumbled on this manipulation more than 25 years ago and began petitioning the agency (and the exchanges) to end it, they opposed any suggestion that silver was manipulated. Having done so, the regulators and the exchanges sealed their future behavior, namely, denial at all costs. The fallout in terms of financial and legal liability of a world commodity being manipulated for decades is beyond calculation. No one could ever admit to that. Unfortunately, that's reality.

Aside from the innocent financial victims of the silver manipulation (including mining companies and countries) and a federal agency acting contrary to the law, another bad thing is the resultant loss of respect and belief in our important financial institutions, including the CFTC, JPMorgan and the CME Group. I take no pleasure that my exposure of the silver manipulation has brought reputational harm to these institutions, as that diminishes us all. At least among the many thousands of metal investors who have come to understand the manipulation, these institutions are at the bottom of any metric for good reputation. No one can say that is good.

But there are some good things about facing the reality that the CFTC will never admit to a silver manipulation. One is intensely personal in that I think it explains why my head is still attached to my neck and has not been cut off. I was never really worried about the CFTC or the government getting after me, as I'm not a strong believer in deep conspiracies. But repeatedly labeling JPMorgan and the CME as manipulators and criminals did concern me and should have brought some type of adverse reaction from them. My allegations against JPM and the CME have always been based upon the facts in the COTs or other government data and actual price movements. It gets repetitive, but the allegations are based upon issues like market concentration, position limits, collusive trading and all that is pertinent to manipulation and commodity law. The CFTC must keep denying the allegations, but that's because they are not in a position to openly debate the allegations or prevent them from being made.

Perhaps I'm deluding myself, but as a citizen, I have every right to lodge credible allegations of a serious crime in progress. I think there is very good news in the fact that these allegations have been made publicly and sent to all accused of wrongdoing and there is no response by all these mega-institutions. Actually, the stalling by the CFTC and the silence by JPM and the CME is an outstandingly good thing. Let's face it — it is public knowledge that there was a private agreement back in early 2008, when JPMorgan took over Bear Stearns, between JPMorgan and high government officials, including the Federal Reserve and the US Treasury. I remember reading that JPMorgan was indemnified by up to \$1 billion for any losses resulting from the acquisition.

While very few knew that the big silver (and gold) short position was held by Bear Stearns at the time of the acquisition (including me), certainly Jamie Dimon (the CEO of JPMorgan) and regulators and exchange officials were in the know. After all, it wasn't just the positions that were acquired, but JPMorgan took over the Bear Stearns traders and those traders continued to manipulate the price of silver afterwards. It is not possible for the CFTC, JPM and the CME not to know. And they all know that this cannot be discussed publicly; that's the reason for the silence. The good news is that silence in the face of credible allegations diminishes those accused of wrongdoing.

The best news of all is that the refusal of the CFTC to do the right thing and terminate the manipulation leaves only one choice for those who have studied all the facts. That choice is to buy and hold silver and hunker down for the long term. Certainly, that's been the correct choice for the life of the manipulation to date and nothing suggests that will change any time soon. The key is not to get shaken out of silver holdings on the deliberate price smashes. The only practical way of doing that is to not hold on margin and keep your focus on the long term.

This doesn't mean that you should stop petitioning the regulators and elected officials to redress the crime in progress, as it would be wrong for a citizen to remain silent when his voice should be heard. That means you could and should do both, petition and hold silver. Leave the inaction and silence to the agency and the crooks at JPMorgan and the CME.

There's nothing wrong with facing reality. Taken to its natural conclusion, it brings an inner peace and conviction and will make it easier to hold onto silver for the long term. Speaking for myself, this recognition that the CFTC is not about to come to the rescue and fulfill their most basic mission of preventing market manipulation, makes me feel more confident about silver's future. That's because the agency's failure to date hasn't prevented silver from grinding higher over the years and continued agency inaction won't prevent silver prices from climbing higher. Unless I'm reading current developments completely wrong, the silence of JPMorgan and the CME to the growing awareness of the silver manipulation has only further damaged their reputations. Taken with non-silver related issues, like MF Global and derivatives trading losses, it's safe to say their reputations must be at an all-time and much deserved low point.

A few words on today's price action, aside from up feels much better than down. I don't know how it's possible to explain silver and gold suddenly trading at multi-week highs in terms other than related to the COT market structure. If there is another explanation to account for the rally, I am not remotely aware of what it might be. As I tried to explain in Saturday's report, this move has everything to do with technical fund buying (both short-covering and new buying) and commercial selling. The unusually low commercial net short and speculative net long position in COMEX gold and silver set the stage for this rally, which began on Friday. If past is prologue, the move will end, perhaps only temporarily, when the commercials decide they have permitted as much technical fund and speculative buying as the commercials will allow. There is no way of knowing in advance just how much speculative buying will be tolerated by the commercials, particularly in how much JPMorgan will add to existing short positions. All we can do is monitor COT changes as they occur and are reported. As always, big deterioration will only come on higher prices.

Given today's and Friday's volume and price change, no doubt there has been some deterioration (commercial selling). Based upon the extreme historical COT readings going into this rally, there is still much potential room to the upside, should the commercials decide to let it run. That's the problem with a manipulated market; as long as it remains in a state of manipulation, the price is dictated by whatever short-term tune the manipulators choose to play. Unless you can read the minds of the manipulators, one can just sit and observe; analyzing the data as it is reported.

Since I know of no way to read the minds of the crooks, we have little real choice but to watch and hold. There is no question that gold and, particularly, silver should move higher based upon real world conditions, but neither should there be a manipulation in force in the first place. I guess that's a part of facing reality as well; dealing with the probabilities on terms of your own choosing. How the short term gets resolved in COT terms may be the same or different than the much higher silver prices to come in the longer term.

Ted Butler

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Silver – \$29.30

Gold – \$1619

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