NOT A BUBBLE AND NOT 1980 OR 2008<?xml:namespace prefix = o ns = "urn:schemas-microsoft-com:office:office" />

No one can give you a detailed roadmap to the future price of silver. Undoubtedly, the price will fluctuate widely. I believe the price is still destined to move sharply higher in the long run. Today, however, I would like to focus on the opposite, namely, the likelihood of a significant and prolonged price slump. Specifically, I'd like to address concerns that we may witness a bubble bursting in silver, or of a price collapse like 1980 or 2008.

A silver price crash due to the bursting of a bubble is virtually impossible, because there is no evidence of silver being in a price bubble. These bubbles are rare events, despite that label being loosely applied to any asset that experiences a sharp price rise. Not every price rise is a bubble. The conditions necessary to form a bubble include extremely widespread participation by the public and aggressive use of leverage or borrowed money. The most obvious example of a bubble was the recent real estate boom.   The public participated in widespread purchases of houses with borrowed money (mortgages), driving prices to unrealistically high levels. The subsequent collapse confirmed that the real estate phenomenon was a bubble.

Neither condition, widespread public participation nor excessive use of leverage, is present in the silver market. Yes, it is true that there has been record demand for the purchase of U.S. Silver Eagles and other forms of silver, but that doesn't translate into widespread public participation. Investment demand in silver as a percentage of total investment demand doesn't register above the smallest fraction of one percent. And current silver investment demand is almost exclusively being conducted on a cash-on-the-barrel-head basis. I'm not aware of any banks or financial institutions offering loans intended to buy silver. Yes, there is leveraged speculation on the COMEX and elsewhere, but not at historically elevated levels. Do your own survey of those around you as to how many have recently purchased silver. Don't be surprised by puzzled responses. Silver can't suffer a severe price collapse due to any bursting of an investment bubble because no price bubble exists.

Another unfounded fear that has emerged is whether silver can experience the dramatic price collapses that occurred in either 1980 or 2008. Back in 1980, as a result of the Hunt Brothers manipulation, the price of silver soared in a year from the single digits to over $50, only to quickly collapse back to the single digits when the manipulation was terminated. Can that happen again? I suppose if silver is ever manipulated to the upside, then conceivably it might eventually collapse. But first silver would need to be manipulated higher, a condition that does not currently exist. In fact, if silver is manipulated, it is manipulated to the downside, as I have alleged for a quarter of a century.

A concentrated position must be present in order for a manipulation to exist. In 1980, the Hunt Bros (along with several associates) held a concentrated position on the long side of silver. This was the basis of the silver manipulation back then. Today, no concentrated position exists on the long side of silver. In other words, there is no known large amount of silver or silver derivatives owned by a small number of market participants. Therefore, there can't be a price collapse like we witnessed in 1980 because market conditions are exactly the opposite of what we had then.

But there does exist a concentrated position on the short side. U.S. Government data documents that several large trading entities, led by JPMorgan, hold extremely large short positions in COMEX silver futures.   Since there is a concentrated position on the short side of silver and not on the long side, it is impossible for there to be a long side manipulation in place, only a short side manipulation is possible. On the basis of a manipulation ending, there is a much higher probability of a price explosion and not a price collapse.

Finally, what are the odds of a 2008-style price collapse, when silver dropped more than 50%, from around $20 to under $9? Back then, we were in the teeth of worldwide financial crisis that caused the price of most commodities to collapse. I suppose that could happen again, although that is not currently the case. World monetary authorities are more alert to signs of systemic stress now than they were back then. Certainly, those financial firms that went bankrupt or were rescued, like Bear Stearns, Lehman Brothers and AIG, won't be doing what they did back then. We still have economic problems today, but they appear different. However, I have reason to think we are not about to experience a 2008-style silver price collapse.

I never really bought into the popular line that silver collapsed in 2008 due to a sharp and sudden contraction in the world economy. I think the sell-off was due to market engineering by JPMorgan and the other big concentrated shorts to induce that liquidation. That forced liquidation included massive amounts of long silver/short gold spread positions on both the COMEX and in the OTC market. There was nothing accidental or legitimate about the silver liquidation back in 2008, as the liquidation was almost exclusively limited to the leveraged paper market and not the physical market.

The difference today is that there is little documentation that large numbers of long silver/short gold leveraged spread positions exist. Since they don't exist, there is no way they can be liquidated ala 2008. Back then we didn't know that JPMorgan was the King Rat of the silver shorts. (I would only come to learn that in late 2008). Nowadays, it is common knowledge. That makes a difference because it brings the idea of a manipulation into sharper focus and alters the behavior of the big shorts. Back in 2008, JPMorgan never contemplated buying back shorts on a price rise; they were only interested in selling additional contracts short to the upside. Today, the data show that JPM has been buying back shorts aggressively on the price rise over the past few months. This is a big reason behind silver's current price rise, making the difference between today and 2008 as stark as the difference between night and day.

Finally, the CFTC was only in the very early stages of the Enforcement Division's formal silver investigation which began in the fall of 2008. That investigation apparently came into being as a result of the August 2008 Bank Participation Report which indicated that one or two large US banks held short over 25% of the world's annual silver mine production. Until I wrote about it there was no public knowledge of just how extremely concentrated the COMEX silver short position had grown to be. Most market observers didn't know that a Bank Participation Report even existed. Today, the Bank Participation Report is widely followed and analyzed. Importantly, the CFTC's silver investigation in now in its third calendar year, making it the longest in the agency's history. I believe this investigation has taken so long to be resolved because the Enforcement Division is reluctant to admit the obvious, namely, that the short-side concentration clearly caused the price to be manipulated. Current price action is proving the price of silver has been manipulated. For all these reasons and more, the comparisons with 2008 and today don't really match up. Therefore, the likelihood of a 2008-style silver price collapse is more remote.

I'm not saying silver won't sell-off and sell-off sharply from time to time, as it will. What I am saying is that silver is not in a bubble and should not suffer a price collapse. Second, silver has not been manipulated higher and can't collapse in price due to the termination of a manipulation. It can explode instead as the short side manipulation is ended. Finally, the conditions present in the 2008 engineered takedown are very much difference from current conditions. One never wants to be overly complacent in any investment, but neither is it constructive to unnecessarily worry about circumstances that don't exist.

I discuss these thoughts and others in an audio interview with Dr. Dave Janda, a fellow subscriber and all-around great guy.

http://www.davejanda.com/audio/TedButler022711.mp3

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