

Weekly Review<?xml:namespace prefix = o ns
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Although they finished below the price highs recorded earlier in the week, both silver and gold finished at new weekly milestones. Gold finished up about \$11 (0.8%) and a new historic weekly high close. Silver was ahead better than \$2 (5.8%) and closed at a new weekly 31-year high. As a result of silver's outperformance, the gold/silver price ratio fell to new multi-decade extreme milestone favoring silver of below 38.5 to 1. Just as a reminder, as recently as last August, the ratio traded as much as 68 to 1.

I continue to believe that the pure ratio price change doesn't adequately reflect the real meaning to precious metals investors. To get the real meaning, you must do some simple calculations on your own with a pencil on paper. Sometimes, such calculations help drive home the point. Up front, my intent is to show just how much extra return would have accrued to gold investors had they switched to silver. I know I make this point repetitively but I do so intentionally because I am convinced the gold to silver switch has a long way to run. I'll get into the reasons in the oft-promised article on silver investment supply/demand planned for next week. Now, I would just like to look at the scoreboard to date. Even if you are among the fortunate investors who made an important switch from gold to silver already, it's still important that you monitor switch developments and rationale. As always, I am not encouraging anyone to

trade the gold/silver ratio with leveraged vehicles. My sermon is primarily intended at helping gold-heavy investors achieve what have been some spectacular returns to date by converting fully-paid for gold into fully-paid for silver.

Admittedly, what time period you choose for measuring the relative performance of silver compared to gold will necessarily alter how the numbers come out. For that reason, I try to pick time periods that seem logical. Over the past 7 months, the price of silver has more than doubled, while gold has climbed about 22%. That means an investment in silver would have returned almost 5 times more than what an investment in gold would have returned. From the extreme lows at the nadir of the 2008 financial meltdown, silver (then under \$9) is up four-fold, while gold (then \$700) is up about a double, meaning silver's return was almost twice as good for that period. From their respective lows over the past decade, silver (then \$4) is up more than 9-fold, while gold (then \$252) is up less than 6-fold. In almost any objectively derived time period, silver has outperformed gold.

As a value investor/analyst, please understand that I am not citing silver's relative outperformance over gold to date as a reason for someone to switch gold to silver. Rising prices do not increase the buying attractiveness of anything of value. Value investors who bought silver in the single digits know there was a more compelling value at \$5 than there is at \$37. But neither can

anyone turn the clock back. We all must deal with the here and now. If I am not suggesting anyone buy silver just because it has gone up, then why am I highlighting silver's past performance, especially relative to gold? For a number of reasons.

It wasn't too long ago that most people thought silver would not or could not climb in price like it has, especially that it could seriously outperform gold. But silver's absolute and relative price performance has destroyed that original premise. Nothing gets the investment world's attention like price. It's just human nature that a sharply rising price attracts buying interest. In this circumstance, silver's price rise has garnered attention. What makes this special to silver is that this was always a core belief for me.

I have always held that the supply/demand fundamentals and the special critical factors in silver didn't need to change in any way in order to become bullish. They were always spectacularly bullish. All that needed to change was for enough new people to learn and recognize the real circumstances in silver. That to me was only a matter of time, given our increasingly wired world. The recent price change in silver has accelerated the growing awareness about silver's real story. Amazingly, the growing awareness about silver is still in its infancy. It will reach a mature stage when you hear in the main stream media a widespread discussion on the real silver issues, i.e., concentration, manipulation, position limits, etc. We are a long way from that occurring; we are a long way from the

silver story being fully known and discounted. Think of how long it took for us to learn the true story.

I do note that the recent silver price performance has elicited a fair number of sell recommendations because the price has moved too high. Short-term price movements are random and it could turn out that the top-pickers turn out to be correct. But I continue to look for the reasons (aside from their personal feelings that the price is too high) and I detect nothing of substance. No one should initiate or liquidate long term investments on someone else's word or opinion. You want to know what backs up an opinion. While I promise to present the reasons for silver to continue to outperform on an absolute and relative basis compared to gold, I'll do that soon, but not in today's review.

Conditions in the physical world of silver continue to point towards tightness. COMEX silver warehouses movements were frantic over the past week, as big quantities of silver appear to be urgently shuffled in and out. The delivery pattern in the March COMEX futures contract appears like it will remain tight down to the last trading day next week. There may have been too much hype about a delivery default earlier, but it is clear that this wasn't a normal delivery month. It is also interesting how JPMorgan has emerged as the primary issuer late in the month. Hype aside, no one objectively reviewing the pattern of COMEX deliveries in March could not conclude physical tightness in silver.

The biggest physical news in silver this week was the one-day deposit of more than 5,750,000 ounces into the big silver ETF, SLV. This deposit brings the total amount of silver in the trust to over 358 million ounces, a new record. This is the largest stockpile, by far, of silver in the world. Obviously, this silver was not purchased in one day, given daily volume and price changes in the SLV. It had to be the combination of many days' net buying. What this tells me is that it is becoming more difficult to accumulate physical silver to deposit in SLV to meet buying demand. The prospectus for the SLV clearly states that the metal must be on deposit for new shares to be issued. It doesn't appear that requirement is being strictly observed. It appears that the shares are being bought before the metal is deposited. I can understand that this must occur from a practical logistical perspective if sufficient physical silver is not available at all times share buying comes in. But it has always been troublesome to me.

For the record, I am a big fan of the SLV and most other silver ETFs. But if there is one thing that has always bothered me it has been the short selling of hard metal ETF shares. I don't think short selling of SLV (and other hard metal ETFs) shares should be allowed. That's because these are incredibly unique securities in which buyers are assured there is a specific amount of metal backing each share issued. But short sellers of SLV shares do not deposit metal for each share they short. Therefore, the buyers of shares sold short do not have metal backing for the shares they bought. These buyers may have the promise of the

shorts to make good, but they do not have metal deposited in the trust behind their shares. I took this issue up when Barclays Global Investors ran the SLV and I may have to take it up with BlackRock, the new sponsor of SLV.

The reason I bring this up at this time is because of a huge jump just reported in the short interest in SLV. I don't think it was coincidental that the short interest in SLV jumped by almost the identical amount just reported as the one day metal deposit in SLV of over 5,750,000 oz. In fact, the two amounts were less than 27,000 ounces apart. In other words, there was less than one half of one percent difference in the two numbers.

<http://www.shortsqueeze.com/?symbol=slv&submit=Short+Quote%99>

This is a very complicated discussion, so don't be stressed out if I don't explain it sufficiently (certainly, you can question me further). The first fact is the one day deposit of roughly 5,750,000 ounces in the SLV and how that silver needed to be gathered before it was deposited. The second fact is that the short interest in SLV (reported fortnightly) just jumped by almost the same amount to just over 24 million shares (ounces). The third fact is that short sellers of SLV shares do not deposit metal for the shares they short and, therefore, cause shares to be bought with no metal backing. This is against the spirit of the prospectus.

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I believe that the main reason someone would short SLV shares in the first place is precisely because physical silver is unavailable at the time buyers bought the SLV shares. By selling short the shares, the sellers (probably Authorized Participants of the trust) gain time in accumulating the silver to be deposited into the trust. In this case, I believe the recent deposit will extinguish the big increase just reported in the SLV short interest. If I am correct, the short interest in SLV is likely back to 18 million or so. But this is still too high, as 18 million ounces are still owed to the trust by the short sellers.

However, I could be wrong and the big one-day deposit and jump in SLV short interest may be unrelated. In this case it is even more alarming and bullish as the short position of SLV is now truly over 24 million shares. That means that many more shares of SLV have no metal backing. Please don't be confused by any of this. This is what you want to take away - this is an additional clear sign of physical silver tightness. If the reported short position doesn't drop when next reported in 2 weeks, I'll take it up with BlackRock, as I did with Barclays before them. Please don't ask me if this changes my opinion about the legitimacy of SLV, as it doesn't. I promise you if I change my mind you will be the first to know. The same goes if I change my mind about Chairman Gensler.

This week's Commitment of Traders Report (COT) came in as expected. In a reporting week marked by better than a two dollar gain in price, the net silver commercial total short position grew by almost 1800 contracts. The raptors

sold out about 1000 contracts of their net long position and the big 4 added around 600 contracts to their net short position which now totals 44,000 contracts. Considering the price gain in the reporting week, there was not a notable increase in commercial shorting.

In gold, on a better than \$30 gain for the reporting week, the total commercial net short position grew by roughly 4600 contracts. This also was not a particularly large increase relative to the price movement. Further, in gold the big 4 shorts actually reduced their net short position by 4000 contracts to less than 163,000 contracts. This is the big 4's lowest short position since Sep 2009. The gold raptors were the big sellers of around 8400 contracts.

All in all, the COTs in silver and gold are more neutral than anything else. We're certainly not at post-takedown washout COT lows, but neither are we bumping historic high readings in the commercial short positions seen at previous price highs. Make no mistake, if we sell-off sharply it will be because the crooked commercial shorts were able to rig a price smash. But the current readings are not screaming that such a rig job is on the way. Especially in silver, it appears other facts are taking precedence over the COTs.

I've kind of felt this way since the rally began in August, namely, that the COT readings should not be the prime focus for investment decisions. I know I focus

deeply on the COTs, as they explain so much about the market, but I have tried not to rely on them as much as I did in the past because so many new forces have emerged in silver. Specifically, physical market developments have rarely been more compelling.

What continues to amaze me, however, about the COTs is how we are structured relative to the current level of prices. If you told me ten years ago that we would climb more than nine times in price and asked me to guess at what the commercial short position would look like, I never would have guessed that we would still have as large of a concentrated short position as we still have. I would have guessed on the price advance to date, the shorts would have been blown out and carried out. Instead, we still have a concentrated short position in silver beyond comparison or economic legitimacy. I never would have imagined that the big commercials would have miscalculated as badly as they have.

Let's face it, while I always knew that the big commercial silver shorts were on the wrong side of the market, I never thought they would be this wrong. Dollar for dollar and adjusting for the small size of the silver market, this has got to be one of Wall Street's biggest blunders ever. Even the excuse that they may be hedged elsewhere or the shorts are actually for customers and are not held on a proprietary basis holds no water. After all, if hedged it just means someone else is short somewhere and if the real short liability lies with their customers, what

does that say about the advice JPMorgan, et al are giving to their clients? Has someone actually paid JPM to give the rotten advice to short silver so heavily?

Once again, there is only one real question to ask when trying to decide if the silver market has been manipulated and/or still has a long way to run on the upside. That question is what the price of silver would be if JPMorgan's 125 million ounce COMEX short position or the big 4's 220 million ounce short position didn't exist? Or more correctly, what price would it take to convince a wide diversity of many market participants to sell what only a few entities hold short today? As Chairman Gensler said in his recent speech in Brussels "at the core of our (the CFTC's) obligations is ensuring that markets don't become too concentrated." COMEX silver is way too concentrated on the short side and until it isn't and until the factors critical to silver are resolved, it would appear premature to pronounce the silver bull over. Hold on to your horses, because the ride will get increasingly rough, but it is not about to be concluded any time soon.

Ted Butler

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Silver - \$37.30

Gold - \$1429