

March 28, 2012 - Back to Basics/SLV Update

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It's always advisable to step back and review a course of action that has existed for a long time. Specifically, is silver still a good long term investment and is now a good time to invest in it? Certainly, silver has been a good investment over the past five or ten years, being among the very best investments of all, but what about the next five or ten years? Does silver have what it takes now?

There is one basic reason to consider investing in silver, namely, it has the potential to grow investment capital greater than just about anything else. That's my reason and not necessarily the only reason, as others prefer silver as an insurance policy or as the ultimate inflation protection. That's one of the great things about silver; different people choose it for different reasons. When you think about it, that's an attribute not every asset can claim. Please allow me the opportunity to explain why I feel that silver will be every bit the great investment over the next five years that it was over the past five and ten years.

Silver is still the same vital industrial material it has been for the past 50 to 100 years, used in more modern applications than any other metal. Before that, silver was basically used in jewelry, utensils and coinage for more than 2000 years. The paradigm shift in how silver was deployed by man resulted in more

than 90% of the world's silver bullion being consumed and vaporized over the past 70 years – gone forever. World silver bullion inventories now stand a bit over one billion ounces. So great was the silver inventory depletion that there is now less silver bullion in existence than there is gold bullion.

Mine production of silver has grown over that time, but at increasing costs and lower grades, just like in all metals. The issue of resource depletion is real and at the door. Industrial consumption has also grown and broadened out, given silver's unique electrical and chemical properties. Here's a remarkable example of the versatility of silver applications. Ten years ago, silver use in photography was the dominant component for consumption. Today, that consumption component has been decimated by digital photography, yet overall silver consumption is up, thanks to new applications in manufacturing, health and solar. How many commodities could shake off having its main usage getting crushed and still rise dramatically in price? Mine production falls short of industrial consumption and silver recycling is needed to supply any shortfall and enable silver inventories to grow by 100 million ounces a year. It is this 100 million ounce supply that is available to the world's investors annually.

In addition to silver's industrial consumption profile, the metal is also increasingly sought as an investment asset. Hard as it may seem, silver has only been subject to net investment by the world for only the past six years or so. Prior to that, there was no net investment, only net silver disposal, for most

of the past 70 years. (The biggest disposer was the US Government to the tune of billions of ounces). But over the past six years, investors have bought hundreds of millions of ounces of silver, in coins, bars and investment vehicles like the new ETFs. Given all the facts, it is likely that the investment trend in silver will continue and grow. The question becomes will there be enough silver to satisfy investment demand and at what price?

It is still silver's dual role, as a vital industrial material and its attraction as an investment asset that sets silver apart from every other world commodity, including its closest comparable asset, gold. It is silver's dual role that sets the stage for dramatic gains ahead. Specifically, it is silver's investment role that promises to first propel the price. Simply put, it is most likely that investment demand will exceed the amount of silver available for sale on a continuing, if irregular, basis in the future. Greater investment demand versus supply will drive silver prices higher at times. Nothing magical about that.

Where the magical part comes in is with the impact this investment buying will have on other facets of the world of silver. There are already forces in place in the silver market that threaten to set off a price explosion at any time investment buying absorbs all available metal. And please remember, this complete absorption of available metal has already occurred in the past, most notably last spring, when silver approached \$50. I'm not talking about something that hasn't already occurred or can't occur easily in the future. These

forces in place are unique to the silver market and suddenly tight supply conditions are likely to set them off.

The first force is a coming silver industrial user inventory buying panic. For more than 30 years, the world has adopted a just-in-time manufacturing and inventory process. Thanks to computers and advanced technologies, the world produces and consumes on a lean and mean real time basis. That means no excess inventories of anything. Most of the time that works out fine, as any disruption in the delivery or supply of a finished component or raw material is quickly adjusted for. But silver is a special item, given its dual role as an industrial material and investment asset. In a supply shortage, both investors and industrial users will compete for an increasingly tighter silver supply.

Any industrial material can achieve shortage conditions, with industrial users competing against one another to build inventories to prevent disruptions in the manufacturing process. Such shortages must burn themselves out amid higher prices and most end fairly quickly. But no industrial material, other than silver, is also a common household investment asset; not copper, oil or other mineral. That means that as and when a silver shortage develops, there will be competition not just between users, but also between investors and users. This has yet to occur, but the preconditions are present and any actual occurrence promises to blow the roof off of silver prices.

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It is also important to recognize that there is now a silver investment infrastructure in place that did not exist more than six years ago, with the introduction and proliferation of various world silver ETFs (exchange traded funds). I think all investors should hold silver in their personal possession where possible, but there are 600 million ounces held in these ETFs and almost all of that has been bought over the past six years. As and when investors kick it up a notch in acquiring silver, the mechanisms to accommodate them are already firmly in place. Users versus investors, combined with ease of purchase; that's a witches' brew for higher prices.

There is another special potential bullish force in place in silver that is also unique to this market; the concentrated net short position held in COMEX futures contracts by JPMorgan and other large commercial traders. An excessively concentrated market position is inherently manipulative. Since the concentrated position in COMEX silver futures is on the short side that means that silver has been manipulated lower by this short position. Yes, I am speaking of an illegal market circumstance and I have done and will continue to do everything in my power to end this illegal situation, including petitioning the regulators, the perpetrators and Congress. After 25 years of such efforts, there is little reason to stop now. Whether my (and your) efforts succeed or not, the silver manipulation will end, as all manipulations must end.

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No matter how the silver manipulation and excessive concentrated short position end, the termination will be extraordinarily bullish to the price. It can be no other way. When the big silver shorts stop adding to their short positions, a great downward pressure will be lifted from silver prices, allowing prices to forcefully move higher for the first time in a quarter century.

What's amazing is that three distinct forces, unique to silver alone, have been set in place. Any one of them would be reason enough to buy silver; having been thrust together, all three make it almost impossible not to own silver. Silver's dual role as a vital material and investment asset, the coming user buying panic and the documented concentrated short position set the stage for price appreciation on an unprecedented scale. It's hard to imagine the confluence of these three forces not greatly rewarding those who hold silver, with the best gains yet to come. With the price down by more than a third since the price peaks of last year, it's hard to imagine a better time than now to buy silver.

### Update on SLV Short Position

The new short interest figures for equities were released on Monday for

positions held as of March 15. These reports are issued every two weeks after, roughly, a two-week delay. For the fourth report in a row, the short interest in shares of the big silver ETF, SLV, have dropped. In the latest report, the short position in SLV dropped by almost 1.5 million shares (ounces) to just under 9.1 million shares.

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

On Jan 16, the short position in SLV was 26.6 million shares. Not only is the short position now down by 17.5 million shares (65%) in two months, as a percentage of total shares outstanding, the short position dropped from 8.5% of total shares outstanding two months ago to under 2.9% of total shares outstanding currently. At the peak last year, the short position in SLV was almost 37 million shares and represented over 12% of total shares outstanding. Make no mistake - the decline in the short position in SLV is no minor matter. And it must be interpreted, at least at this point, as unabashed good news for silver investors.

I've written a great deal about the short position in SLV and other hard metal ETFs (exchange traded funds). I hold that short sales in these funds are fraudulent to shareholders and manipulative to the price of the metal on which the funds are based. No actual metal backs up the shares that are shorted and some shareholders, by definition, have no metal backing their shares. To me, that's fraud, based upon the representations in the prospectus. Further, I

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believe the primary motivation for selling shares of SLV short in the first place was because physical metal couldn't be secured readily. That's manipulative to the price of silver and the shares. When I asked you to take these issues to the senior management of BlackRock, SLV's sponsor, it resulted in a blatant brush-back from the plate by their lawyers that left me spitting out dirt. Fortunately, it also appears to have resulted in BlackRock moving to crack down on the short position, which was my sole intent all along.

The timeline on all this appears to be more than merely coincidental. At this point, it looks most plausible that there was a BlackRock involvement of some type in getting the short position in SLV so drastically reduced, especially when you consider that the reduction in the short position came mostly under a backdrop of rising prices. In the past, rising prices meant an increase in the short position of SLV. Of course, the key determinant is whether the short position in SLV will be permitted to increase sharply on any future rise in price. That's really all that matters and the jury is still out on that.

An analyst must always strive to interpret developments as objectively as possible. That's true whether the developments look good or bad for future prices. I have previously characterized the excessive short position in SLV as one of the two most important factors in determining the direction of silver prices, with the resolution of JPMorgan's concentrated short position on the COMEX as the other. Had the excessive short position in shares of SLV been



allowed to continue or grow, that would have been negative for the price of silver ahead. To be fair, the dramatic reduction in the SLV short position, especially in light of an active campaign to achieve just that, must be considered constructive. To worry now that it might increase in the future serves no good purpose. If it does increase, we'll deal with it then.

I am also more convinced than previously that the bulk of the SLV short position that was recently covered was held and covered by JPMorgan. Unfortunately, I cannot document that as the data as to who holds short stock positions are not disseminated, even when they are concentrated. But it stands as logical that the big short in the two most important world silver markets (COMEX and SLV) could be the same or related. Certainly, if there was one very concentrated short holder in both markets, as I believe, a well-connected organization like BlackRock (the world's largest money manager with almost \$3.5 trillion in assets under management) would be in a better position than almost anyone to uncover that. And if BlackRock did uncover that JPMorgan was the big SLV short, it would be in a better position to do something about it as well. Why do you think I wrote to BlackRock in the first place?

Finally, that such a large percentage of the short position in SLV was covered so quickly and mostly on higher prices suggests to me that it was likely one entity holding the bulk of the short position from a logistical perspective. Pressure from one high powered organization to another high powered organization is

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more expedient than in dealing with many different SLV short sellers. There are not many entities that could stand up to JPMorgan, but I believe that BlackRock is one such entity. And it fits in perfectly that JPMorgan had to significantly increase its concentrated short position on the COMEX as it was covering its short position in SLV, so as not to lose its control of the price. If I am correct in my supposition, then that might suggest that BlackRock will also be sensitive to and move against any great future increase in the SLV short position. The old saying comes to mind; the enemy of my enemy is my friend.

As it stands now, the reduction in the SLV short position is a very positive development. While I consider almost any short position to be too large for a hard metal ETF like SLV, let me be completely candid; I never would have begun this campaign if the short position in SLV was 2.9% of total shares outstanding to begin with, as it is currently. And if you told me two months ago that we would witness the actual reduction in the SLV short position that has occurred to date, I would have not believed you.

A quick word on today's price weakness. The current market structure does not suggest a pronounced price decline ahead. The commercials, acting collusively and with dirty market tricks (HFT) at their disposal, can and do put prices wherever they desire on a short term basis. But it should be clear that the commercials are the always the big buyers on these engineered sell-offs. The sell-offs invariably end when there is little speculative long liquidation

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remaining, as it serves no purpose for the commercials to drive prices lower if they can't buy more. It seems to me that we are at, or very close, to that point where the commercials can't induce much additional speculative long liquidation and new short selling in COMEX gold and silver. There's no doubt that silver is manipulated in price, but there is also no doubt that even manipulated markets have a rhyme and rhythm. Lower prices are rigged by the commercials to get others to sell to them. Bottoms are defined when that selling runs out.

Ted Butler

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Silver - \$32

Gold - \$1659