

Benchmarks and Anniversaries

The airwaves have been featuring a variety of milestones lately, including the push to 5000 on the technology-laden NASDAQ stock average for the first time in fifteen years. Milestones are good, because they force you to stop and reflect on things with a different perspective. Another widely heralded event was the 50th anniversary of Warren Buffett's ownership of Berkshire-Hathaway and the richly deserved attention that his annual letter to shareholders always holds. The investment returns achieved by Mr. Buffett are nothing short of legendary and that is fully reflected in the fact that he is always at the very top levels of the world's richest individuals.

Moreover, it's not just what's on the money scoreboard that counts in his case, as the witticisms and overall good advice he offers are educational as well. I say this fully aware that Mr. Buffett is not esteemed in the eyes of many gold supporters, as he has been consistently dismissive of the metal's investment prospects, mostly because of its lack of a utilitarian role in the course of business. Buffett is all about ongoing business enterprises, growth and returns on investment. Against those measures, gold doesn't fit according to him.

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I don't necessarily agree nor disagree with Buffett's take on gold, as regular readers know that I am more of a gold agnostic than anything else. I like to think that provides me with a more objective perspective than those who are staunch gold believers or disbelievers. At the very least, I believe that the price of gold is mostly artificially fixed and manipulated in COMEX dealings and I do comment on that extensively. Further, I think I may have influenced others to the dominance and control that the large commercials, mostly big banks, have had on the price of gold on the COMEX. With that qualifier, allow me to segue to a metal that Mr. Buffett once had a much more favorable opinion on - silver.

Nowhere to be found in the annual fanfare surrounding Mr. Buffett's pronouncements and achievements is there ever any mention of the time, in 1997-98, when Berkshire Hathaway purchased 130 million oz. of silver, the largest holding of silver since the Hunt Brothers circa 1980. Buffett's purchase of silver was one of the truly seminal events in the metal's history and anyone interested in silver should strive to learn as much about Buffett's Bombshell as possible. After all, it's not every day that one can garner advice and education on silver from someone who may be the world's most successful investor.

As I've written previously, I had just begun to write about silver on the Internet in 1996, after writing about it on paper and using snail mail since 1985

(including petitioning the CFTC and the COMEX about the manipulation), when Buffett made his surprise silver purchase. Apart from my suspicions that I may have influenced Buffett, the much bigger issue was that he put the stamp of approval on the "silver story". It is one thing for an unknown and independent analyst on the Internet to sing the praises of silver as an investment opportunity, but quite another for the world's most successful investor to put his and his shareholders' cash on the line. One of the earliest articles I wrote was a sincere public "thank you" to Mr. Buffett in early 1998. (As an aside, the last paragraph was published on the inside cover of Pan American Silver's annual report that year). <http://www.gold-eagle.com/article/thank-you-mr-buffett>

By studying Buffett's purchase of silver in 1997-98 and his holding it until 2006 (when I believe he "lost" it as opposed to selling it voluntarily), one can still learn almost all one needs to know about silver. Basically, he bought it because of the inevitable shortage argument brought about by more than a half century of a profound deficit consumption pattern. Buffett knew that with less silver in the world each year for 60 years, it would only be a matter of time before a physical shortage hit and prices would explode. I think this lies at the heart of why he considered silver different from gold. And you don't have to take my word for it - he was quite eloquent and descriptive in his thoughts about silver at the time.

In fact, the physical shortage premise in silver arose at the very start of Buffett's involvement when he openly revealed in February 1998 that he would allow short sellers who could not fulfill delivery requirements extra time to deliver metal (for a fee). Long forgotten is that Buffett was interested in buying a lot more than the 130 million oz he stopped at for the simple reason there was no more physical silver available for sale. What Buffett proved is that there is a world of difference between paper silver and physical silver, a lesson that endures to this day. He bought it in paper form to lock in a favorable price, but as he converted to physical all hell broke loose. That's a theme I pound on consistently and highlighted recently to prospective big buyers of the metal. But me saying it and Buffett proving it are, once again, two very different things.

Buffett bought silver for all the right reasons and for that he will always hold a special role in history and for which I am thankful. However, much later it became clear to me that Buffett came to use his physical stash of silver to play against the technical funds on the COMEX until 2006. In essence, Buffett played an important role in the COMEX manipulation beginning soon after he bought silver and until he lost it in 2006.

Holding more than 100 million physical ounces, Buffett was able to short upwards of 20,000 COMEX contracts whenever the technical funds came onto

the buy side, much like JPMorgan and the big banks do to this day. I didn't know this at the time, but it fully answers the question of why the CFTC and the COMEX permitted the concentrated short selling by Berkshire Hathaway, namely, Buffett could show they owned the silver and it wasn't a naked short position. It was still a dominant and controlling position that manipulated silver prices, but the regulators weren't interested in that aspect.

By my estimate, Berkshire Hathaway took out a minimum of a dollar an ounce per year in COMEX paper trading on the short side on 20,000 contracts. That comes to \$100 million a year for six years, or more than \$600 million. That's not a bad return on a "fallow" asset that didn't cost much more than that originally. But Buffett's luck ran out in 2006 as the tables were reversed and he was forced to relinquish his silver stash to other paper buyers who demanded physical delivery (most likely for the introduction of the SLV). If he had chosen to instead buy back his paper shorts and continue to hold the physical silver, the price would have exploded and all sorts of negative publicity would be forthcoming as to Berkshire Hathaway shorting massive quantities of COMEX contracts and buying those contracts back. Buffett, in my opinion, had no choice but to deliver against his shorted contracts and joke that he sold too soon. It came down to a question of personal reputation, which is always worth far more than money, particularly to someone with more money than just about anyone else in the world.

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While I'll always be grateful to Mr. Buffett for confirming the real silver story, I can't help but feel he got what he deserved for enabling the silver manipulation to continue after his purchase. It's sort of a live by the sword, die by the sword kind of thing. What's so amazing about the whole Berkshire Hathaway episode is that it encapsulates everything important in silver. No wonder it's not featured in any of the milestones trumpeted daily.

Getting back to more current events, JPMorgan, in its proprietary trading account, still remains the largest "stopper" (acceptor) of contracts delivered against the March COMEX silver futures contract. Through today's delivery notices, JPM has taken 870 contracts (4.35 million oz), converting paper contracts into physical silver. (In error, I misstated the equivalent oz in the weekly review). JPMorgan has taken a bit over 50% of the 1632 contracts issued for delivery so far this month and in accordance with how the mechanics of COMEX delivery work, the bank looks set to acquire around 500 more contracts based upon current and projected open interest (assuming no liquidation or new buying in the expiring March contract).

http://www.cmegroup.com/delivery_reports/MetalsIssuesAndStopsYTDReport.pdf

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Once again, JPMorgan's acceptance of physical delivery supports my speculation that the bank has and is continuing to acquire metal in addition to the 300 million physical oz I think it has already purchased. One big difference between JPMorgan's massive silver accumulation and that of Buffett's or the Hunts' purchase is that there is no evidence that Buffett or the Hunts ever shorted COMEX contracts to drive the price lower in order to buy more cheaply. Since JPMorgan has been the largest COMEX short contract holder in silver for the past seven years, it can't be argued that this isn't a systematic and deliberate effort to buy silver at artificially low prices. As such, it should be painfully clear that this is as subtle as a sledge hammer when it comes to motive. A jury of eighth graders would comprehend JPM's motive and method without much difficulty. The regulators? Not so much.

And while I usually only comment on Silver Eagle sales in the weekly review, yesterday's report from the US Mint indicated a sharp jump in the daily sales rate this month above not only very recent daily selling rates, but even above estimated full daily production capacity. Whereas sales for February came to a bit less than 108,000 coins per day (7 day week), yesterday's sales for the first few days of March come to 141,000 coins per day, above previous full capacity of 130,000 coins per day. My sense is that the big buyer held back a bit recently in order to give the Mint some breathing room production-wise and away from having to fully ration Silver Eagles, as has been the case many times over the

past four years.

I can't help but conclude that JPMorgan accounts for a large part of recent sales of Silver Eagles. I don't hear of strong retail demand from my usual sources and sales of gold coins are so weak as to support the feedback of overall weak retail coin demand. Someone is a big buyer of Silver Eagles and if it's not the public it has to be someone big. I say it's the same big buyer of other forms of physical silver, including the delivery of COMEX March contracts.

http://www.usmint.gov/about_the_mint/index.cfm?action=PreciousMetals&type=bullion

Finally, I'd like to share some new thoughts or, perhaps stated more correctly, some new feelings about the current market circumstances. But I am somewhat uncomfortable in doing so, because it relies upon current price action and I've told myself thousands of times that relying on short term price action for any message in a manipulated market is nuts. That's because the crooks can paint the tape and put prices anywhere they want whenever they want. The big commercials can make it look like the market is strongly supported to encourage buying and then lower the boom and prices in a flash, flushing out those who thought the market looked strong. This much I know.

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That's why I rely on positioning data on the COMEX that comes from the Commitments of Traders Report and a variety of other market reports and not so much on price and chart data to form expectations of where prices may be headed. To summarize, the COT data indicate a substantial amount of technical fund selling and commercial buying on the \$100 decline in gold and \$2 decline in silver over the past month, enough to say that the market structure has improved a lot.

But the improvement does not take us back to the favorable set up at the beginning of the year and certainly not back to the even more bullish readings in November. Therefore, I still sense the possibility of one more shot to the downside in which whatever technical funds can be persuaded to sell (on lower prices) are persuaded to sell. I hope and believe that is what I have conveyed recently.

But what's bothering me about the set up I imagine in the short term and that has worked up until now (although I ask you not to rely upon it) is that there have been a number of occasions in the past few days where I would have imagined the technical funds would have come in as strong sellers (as prices

declined) and yet there has been no apparent new tech fund selling. For instance, there was a sharp selloff in the wee hours the other night in which gold dropped a quick \$15 and silver by 40 cents to new lows and there was no follow thru to the downside and prices quickly snapped back. Just today, prices acted crummy, but again no follow thru to the downside. Or at least no downside follow thru yet.

I've tried to narrow the market equation to the downside, should it occur, as being solely dependent upon whether the commercials could lure what may be a limited number of technical fund short positions into the market on lower prices. That opens the possibility that new technical fund short sales may even be more limited than I imagine. And I can't help but think that even more as the downside breaks occur with no follow thru. Maybe the commercials are just toying with short term price appearances to lower the boom once again, but if there are not significant numbers of short technical fund short contracts to be put on, then there is, effectively, no reason for silver prices to go lower.

I don't have much of a guess on this week's COT report because both gold and silver were higher over the first three days of the reporting week and lower the last two days with prices ending close to unchanged and not on particularly high trading volume. I'm hoping for a bit of further improvement or reduction in the

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headline number of the total commercial net short position in both markets due to the momentum over the past month, but hope is the operative word.

Ted Butler

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Silver - \$16.20

Gold - \$1200