Is It Different This Time?<?xml:namespace prefix = o ns = "urn:schemas-microsoft-com:office:office" />

Hard-bitten veterans of investment wars know full-well the most frightening words of all □ □it's different this time.□ What makes these words so frightening is the thought that we will misjudge something that is recurring as actually not recurring. In other words, the fear is that we forget the hard earned lessons that we have learned on numerous occasions in the past and make the same mistake again by convincing ourselves that conditions are really different this time. Nothing makes you feel dumber than repeating past mistakes.

I'm keenly aware of this fear in regards to the current price set-up in silver. Here's the set-up as I see it – the commercials ran the price down since mid-January from $18.60 to almost $14.60 on Feb 5. Since then, we have rallied almost $3 to $17.50. Because most market participants utilize charts and technical measurements to judge oversold and overbought conditions, it is felt that those conditions suggest a sell-off, considering the recent sharp rally off the lows. While I agree that the price of silver will remain volatile and that volatility could include sell-offs from time to time, I am not overly concerned about a major sell-off at this time. Please let me explain why.

For one, I am not a strict chart disciple. Yes, I look at and ponder the charts as much as the next guy, but deep down, I don't worship them. I certainly believe there is a self-fulfilling aspect to charting, because if enough people believe in the charts and act on those beliefs, there will be a price impact. But it is hard for me to rationalize making important investment decisions based upon a price picture depicted on a graph. This is especially true when making long term investment decisions based upon short-term price movements.

Instead of contemplating the graphics of short term price movements, I'm much more concerned with the forces that may be causing those price movements. In other words, I'm more concerned with who is buying and selling and why, as well as trying to discern the real supply/demand fundamentals at the time. That's why I don't include many charts in these articles, as I want you to think things through and not form opinions based upon the graphics. I realize that I probably carry that to an extreme. The bottom line is that I would never buy or sell silver based strictly on the charts. If the charts strongly confirmed other analyses to buy or sell, then that's something else. But not just chart patterns alone.

This preoccupation with the why behind the price movements and not the price movements themselves has led me to focus on the fundamentals in silver, including a deep study of the Commitment of Traders Report (COT). Even though prices have recently climbed sharply (and as expected by me), I don't see deep concern for a serious sell-off. The most recent COT, released yesterday, confirmed something I was expecting (and hoping for), that I wrote about in Wednesday's article, "Let It Ride." My expectation was that the monthly Bank Participation Report would show a significant decline in the big US banks' short position and that the weekly COT would show a slight deterioration of tech fund buying and commercial selling, but hopefully no additional short selling by the big four shorts. Both expectations came through in spades.

In the Bank Participation Report, the big US banks' (read JPMorgan) short silver position declined by 7000 contracts (35 million oz) for the month to 30,000 contracts (all numbers rounded). This is the smallest short position for them since Aug-Sep. Best of all, the COT showed that not only did the four largest shorts not increase their net short position on the $1 increase in price for the reporting week, they decreased their short position by more than 2,200 contracts, despite the 1100 contract overall increase in the total commercial net short position (the raptors and the 5 thru 8 big shorts accounted for the selling).

For those readers wanting more detail, JPMorgan's first notice day delivery of over 1700 contracts accounted for the bulk of the decline in the big four's reduced short position for the week. And yes, those deliveries were in the "House" not customer category, suggesting that JPM is speculating in silver for its own proprietary purposes and not as part of any legitimate hedge for customers.

I hope no one is unclear of why we dropped sharply into Feb 5 and why we have rallied sharply since then. Simply put, the commercials rigged the market lower in order to cover as many contracts as possible (a total of 24,000 net). Having succeeded in manipulating the market lower and buying 24,000 contracts, the commercials have taken their foot off the throat of the market and have only sold 3,000 contracts on the rally. This lack of selling is what has enabled the price to rally so strongly. So, as of Tuesday's COT cut-off these commercials are net 21,000 contracts better off as result of the $4 sell-off and almost $3 rally. They are crooked, but they are highly skilled. It is precisely because they have sold so little on this rally, compared to what they bought on the sell-off, that I think the silver rally has legs.

Most importantly, the reduction in the concentrated silver short position is the principal factor making me think it's different this time. JPMorgan is the controller of the silver price. As long as they refrain from selling short additional contracts, the price of silver should rally and rally sharply. I don't know what they will do, but hopefully we will continue to be able to monitor their future activity. I can't help but continue to think that the CFTC's announcement, on Jan 14, of the upcoming precious metals public hearing prompted the commercial crooks to induce the sell-off and cover as many short contracts as possible. So far, it seems to be playing out that way.

A quick word on COMEX gold. There was more COT deterioration in gold than in silver. On the sell-off from mid-January, gold declined in price by more than $100, and has almost recovered all of those price losses. On the sell-off the commercials were able to buy 70,000 contracts and, as of the most recent COT, have sold 40,000 contracts on the rally. But my analysis of the COT and Bank Participation Reports shows that despite that increase in selling by commercials on the rally, JPMorgan has actually reduced its gold short position, as they have done in silver. This is an important plus factor in the gold equation.

In the enclosed audio interview with King World News from yesterday, I remarked how the recent two million ounce withdrawal from the big silver ETF, SLV, struck me as almost desperation by the dealers in juggling silver supplies. This reduction in SLV holdings was no more likely investor liquidation than is the likelihood that I'm going to command the next Space Shuttle mission. They needed this silver urgently someplace else, including the COMEX and/or other silver ETFs. It strikes me as the ultimate robbing of Peter to pay Paul.

The unusual changes in the COT and Bank Participation Reports, plus the increasingly obvious strains on wholesale silver supplies leads me to think that it is different this time in silver. Obviously, I can be wrong in the very short term, but I just don't see the signs of a major silver sell-off. If and when the warning signs appear, I hope to spot them. For now, the path of least resistance appears to be up. And up a lot.

Here's the audio interview with King World News from March 5, 2010. Please allow a few moments for it to download

http://www.kingworldnews.com/kingworldnews/Broadcast_Gold+/Entries/2010/3/6_Ted_Butler_on_the_Metals_Market.html

Ted Butler

March 6, 2010