

March 7, 2012 - The Power of an Idea

The Power of an Idea<?xml:namespace prefix = o
ns = "urn:schemas-microsoft-com:office:office" />

It is said that nothing is more powerful than an idea whose time has come. I believe that to be true and there are countless examples of this. In many ways, the history of man is a record of ideas whose time had come. I also believe that the idea that silver has been manipulated by the concentrated short position of JPMorgan and other collusive commercial trading on the COMEX is a particularly powerful idea whose impact may be set to be felt soon. What is it about silver being manipulated in price that makes it such a powerful idea? Simply put, if the idea is true, it suggests sharply higher silver prices at some point as the idea reaches the critical level of acceptance. So the measure becomes the rate of acceptance of the idea.

Please understand that it is extremely difficult to measure how quickly an idea might be accepted, just as it is to step outside the box and judge the world from this idea perspective. Yet we are not without some tools in that attempt and it's actually easier to deal with the specific idea of the silver manipulation than ideas in general. At the bottom of all this is the conclusion that any idea powerful enough to radically alter the course of silver prices will do so when it reaches critical mass. I would define critical mass as the percentage of awareness necessary to render the silver manipulation ineffective.

From a timeline perspective, the idea that silver is manipulated on the COMEX is now more than 25 years old and has come to be accepted by more independent observers than ever before. I admit that the longevity and popularity of an idea are not enough, by themselves, to prove that the idea is true; but they are strongly suggestive of the idea being valid. Generally, an idea based upon a false premise does not withstand the ultimate test of time. More importantly, the federal commodities regulator, the CFTC, has attempted on several occasions (prior to the last 3.5 years) to publicly deny that silver is manipulated in price and that has done little to prevent the idea from becoming more widely accepted.

Let me interject something here, as not to mention it would result in a less than complete discussion. I'm trying to both analyze and write about an idea that I introduced more than a quarter-century ago. I realize that might sound like it may compromise my objectivity in measuring the acceptance of the idea; sort of like a doctor trying to operate on himself. I don't know how to get around that. If I didn't think it might greatly influence the market, I wouldn't write about it at all.

In fact, the manipulation and its termination are the central issues in silver to me and have been for more than 25 years. Certainly, I have no doubt that silver

March 7, 2012 - The Power of an Idea

is manipulated in price and that the manipulation must end. From history, I know that when manipulations end, they end violently in price in the opposite direction of the manipulation. In silver, that means up when the manipulation ends. I don't know if the manipulation will end before we have a serious physical shortage or it will end because of the coming silver shortage. But that is much less important than knowing that the silver manipulation must end. And I certainly don't see anything wrong in pushing the regulators to end the manipulation before the silver shortage hits.

One unique characteristic of the idea that the price of silver has been manipulated is the platform on which the idea has been delivered. There are two principle sources that disseminate information in the modern world; the main stream media (MSM), including newspaper and wire services and TV and radio on the one hand and Internet related information on the other. The contrast between which platform has spread the idea that silver has been manipulated in price is particularly sharp. It would be an understatement to say that the Internet is responsible for the spread of the idea. I don't think I've ever read a single story in the NY Times or the Wall Street Journal or heard on TV the allegations that silver is manipulated. This idea is solely an Internet-delivered phenomenon. I'd like to speculate on why this has been the case and what it may mean in the attempt to measure how close we may be to critical mass.

Perhaps the best and worst thing you can say about the Internet is that it is

largely uncensored and uncontrolled, especially when compared to the MSM. You can certainly find unfiltered information and interesting opinion on the Internet, as well as incorrect information and unsubstantiated opinion. Large news services and networks are more sensitive to publishing incorrect information, but are also captive to control by a variety of forces, including the predisposition of core audiences and advertisers. For instance, because JPMorgan is an important newspaper advertiser, that is why there was never a word in the NY Times or the Wall Street Journal about the class-action civil lawsuits filed against it on the silver manipulation, in my opinion.

Clearly, there has been a strong reluctance, for whatever reason, for the MSM to bring up the idea that silver has been manipulated in price. I think that is quite constructive that the idea has been spread to date with no assist whatsoever from the main stream media. This creates the potential of a sudden and dramatic awakening of the main stream audience depending on the future news flow. For instance, any government finding of impropriety in the silver market will hit that audience by surprise and should kindle strong interest in buying silver. Even an eventual report from the CFTC that again denied the existence of a silver manipulation would focus new attention on the issue. Given all the facts, I don't think it would be difficult to refute any agency finding of no wrongdoing. It would seem, at the very least, that another denial of manipulation by the CFTC would set off a much higher level of debate than in the past and add to the ranks of those who grasp the idea of a silver

manipulation.

Speaking for myself, I have tried to disseminate the idea of the silver manipulation in the most professional manner; sticking to verifiable facts presented in a logical fashion. Until very recently, I have avoided dwelling on the possible motivations for the manipulation and instead have concentrated on the mechanics of it. Almost exclusively, I have depended upon data from the CFTC itself or other publicly available data in presenting the case. I know this has annoyed some who would prefer that I take off the gloves and stop being so "gentlemanly" in expecting the CFTC to do their job. Despite that annoyance, I am convinced the measured and unemotional approach is the correct one.

I believe a big factor in why so many have come to grasp the silver manipulation is because it has been presented in a reasonable and professional manner. The quickest way to cut off a reasonable response is to present the case in an emotional way, replete with unfounded accusations. I don't know why the CFTC is allowing this manipulation to persist, but I am convinced that resorting to wild accusations and theories will not bring them to terminate it. Certainly, it would not be effective to call for Congressional pressure on the Commission in anything but the most professional manner. Senators and representatives are not interested in unsubstantiated complaints from their constituents. They want to have a clear idea of what is wrong and what can be done to fix it. That's why sometimes I ask you to suggest 1500 contracts as a

silver position limit and other times to ask why hasn't the CFTC concluded a 3.5 year investigation?

The main objective in trying to measure when we may reach critical mass in the acceptance of the idea that the silver price has been manipulated is because of the impact it could have on the price. By definition, if a world commodity is manipulated, it will have a radically different price structure from when it is manipulated to when it is not. The trick is to position yourself correctly for the transition from a manipulated market to one suddenly gone free. Manipulations of the type involving silver are extremely rare, although not entirely without precedent. Even rarer is the opportunity to personally profit from the ending of a manipulation. Such opportunities are generally not available in a normal investment lifetime. I truly believe that the outcome of this silver manipulation will result (as it has already) in a financial windfall for many.

The prime reason for why the idea of a manipulation in silver will be so profitable when it ends is because the story is still widely unknown, thanks to the lack of dissemination by the mainstream media. This can be seen in the public statistics concerning silver ownership. Because silver is so under-owned by big institutional money (hedge funds, pensions, etc.) and so tight in actual physical form available for sale, any move into silver by institutional investors will have an explosive impact on the price.

One of the most frequent and logical questions I have received over the years is why hasn't someone big stepped into silver? It's a great question to which I can only answer that the proper question is why hasn't someone big stepped into silver yet? That's because I think it will happen. Certainly someone big stepped into silver in the past, in the form of the Hunt Brothers and Warren Buffett, but no one big has come in recently. Because it happened in the past and because the logic and attraction is better than ever for it to happen again, I believe it is just a matter of time for a big money move into silver. This is in addition, of course, to the flood of small to medium size investors who have already made the move and who will continue to buy silver.

The data proving that big money has yet to flow into silver can be found in CFTC statistics on the world's largest silver exchange, the COMEX, and in the statistics for current institutional ownership in the big silver ETF, SLV, the largest single stockpile of silver on the planet. As and when big institutional money moves into silver, it is likely to be reflected in these two markets, the COMEX and the SLV. Certainly, the data clearly indicate that big institutional money has not bought yet, despite silver having been a great (if not the best) long term investment performer to date.

Last week's Commitment of Traders Report (COT) indicated the highest level of

the speculative long and commercial short position in months, as I have been reporting. While this coming Friday's COT will show a significant net reduction in both these positions (for both silver and gold), it is instructive to see how much big money was on the long side of COMEX silver at last week's peak. To do that, we need only to look at what the four largest traders on the long side held at the peak on Tuesday, February 28. As can be seen from the report, the net long position of the 4 largest traders on the long side was 11.1% of the total open interest on that date of 115,866 contracts, or 12,861 contracts (you must do the computation by yourself, as it is not given in contract terms).

<http://www.cftc.gov/dea/futures/deacmxlf.htm>

You should note that the 4 largest traders on the short side held a position more than 3.2 times larger than what the 4 big long traders held, an extremely large ratio when compared to other commodities. Because the big concentrated position in silver is on the short side and not the long side is at the heart of the silver manipulation. What this also means is that the big institutional money is not on the long side of COMEX silver yet. JPMorgan, in this report, held what I analyze to be 24,000 contracts or almost double what the 4 largest longs held combined. There is no big institutional ownership in on the COMEX.

In the SLV, the story is the same. Institutions hold 19% of the shares of SLV, as compared to an institutional ownership percentage of double that amount (40%) in shares of the big gold EFT, GLD, the largest publicly owned stockpile of

gold bullion in the world. It is clear that big institutional money has not come to buy silver in the SLV -yet.

<http://www.nasdaq.com/symbol/slv/ownership-summary>

The fact that the big institutional money has not come to buy silver yet is what makes the idea that silver is manipulated so powerful. There are, quite literally, many of trillions of dollars of buying power residing in institutional hands throughout the world. Silver is very much a world commodity that would have trouble handling even a few billion dollars of institutional buying without exploding in price. The growing recognition of the idea that silver has been manipulated lower in price and, therefore, represents an outstanding investment value will hit the institutional sector at some point. That it hasn't hit it yet is somewhat of a mystery, but less of a mystery when you recognize it's hard to see something not appearing before your eyes. Obviously, the potential institutional buyers of silver have not learned of the idea that it has been manipulated. In time, it would appear certain that they will learn of this idea and act on it. It's not often that a regular investor gets to see and take a position in something before the big boys catch on. That's the power of the idea that silver is manipulated.

Here's a head's up and preview of this week's coming COT report. It promises to be significant because all of the high volume and vicious sell-off at this point occurred precisely within the reporting week. This is somewhat rare, as there is

March 7, 2012 - The Power of an Idea

usually an overlap in big price moves over several reporting weeks. I don't remember such a sharp move in the past being so clearly confined in one reporting week. The collusive commercial crooks smacked the price of gold and silver starting last Wednesday (the first day of the reporting week) and kept the pressure on through yesterday's cut-off. I can't say that the deliberate price smash is over for sure, but it might be.

What I can say is that we should get big reductions in the speculative net long and commercial net short position in both gold (by tens of thousands of contracts) and silver (by many thousands of contracts). At least, that is my expectation. The real question will be how much the raptors bought in each market versus the big 4 and 8. I would think that JPMorgan should have been able to reduce its concentrated short position in silver down from 24,000 contracts, but by how much depends upon how much buying competition came from the raptors. At the very least, it should be an interesting COT report.

Ted Butler

March 7, 2012

Silver - \$33.40

Gold - \$1683