The Purpose of Price Control<?xml:namespace prefix = o ns = "urn:schemas-microsoft-com:office:office" />

I'd like to expand on my recent thoughts of just how much gold and silver, both in paper and physical forms that the commercials have been able to accumulate over the past six months or so. Based upon Commitments of Trader Report (COT) data, as well as ETF flows and projected similar changes in OTC and LBMA markets, my back of the envelope estimates for how much metal equivalent that has been transferred from the "public" (including hedge fund short sales) to the commercials (like JPMorgan) are 50 million oz of gold and more than 400 million oz of silver. These are staggering sums, with a total (notional) value of $75 billion in gold and $10 billion in silver; prompting me to label this as an asset accumulation for the ages.

It's almost impossible not to be able to verify the magnitude of the metals position transfer in just about any commentary that measures COT and ETF changes or in analyzing the data yourself. Additionally, the conclusion that this positioning has created a set up for an explosive rally in gold and silver is equally self-evident. The timing of any price explosion is, of course, another matter, but there can be no denying, considering how far we have come that we have completed the majority of whatever final positioning is possible. So rather than spend time quantifying again how much gold and silver has been shaken from the tree this year, I'd like to explain what made it possible.

In the simplest of terms, price control is equal to the control of collective behavior. If you control the pricing mechanism, you control how people will act. Perhaps not every single person will react as planned to the stimulus of price (otherwise there would be no contrarians), but enough people will react at the margin to alter collective behavior. Everyday examples abound; from actions by the Federal Reserve and the world's central banks in setting short term interest rates to price control at the most micro-level. When it comes to the Federal Reserve, for example, there is an obvious intent on their part to alter collective behavior in terms intended to be beneficial to society regarding housing, the general economy and the stock and bond markets. Put and keep short term interest rates low enough and in time collective behavior will respond accordingly (as seems to be the case currently). Let's leave aside the wisdom and ultimate success of an artificially low interest rate policy; my point is simple what's behind monetary policy and a low interest rate is the desire to shape collective behavior. By controlling interest rates, you control behavior.

But whereas price control of short term interest rates by the Federal Reserve is largely transparent and in keeping with that institution's mission (whether you agree with it or not), not all instances of price control are transparent or even legal. Of course, I am speaking of the price control in gold and silver emanating from the COMEX. Just as the Federal Reserve can alter behavior in the housing and stock market through its price control of short term interest rates, so does the COMEX alter collective behavior in gold and silver through its control of the price mechanism.

Whether legal or not, the control of price is the equivalent of the control of collective behavior. Why is that? Because price is the hardest thing to argue with for most people, at least in the short term. Put interest rates low enough and eventually you will convince enough people to stop accepting the low rates on their savings and to seek other avenues for better return or even to borrow and not save. After years of prior collective accumulation, put gold and silver prices down consistently and low enough and you will convince many to abandon those holdings.

In addition, the investing world has never been more technically motivated than it is currently and a consistently lower price will attract an entirely different set of traders looking to exploit gold and silver from the short side. With more chartists than ever before who rely solely on price movements for buying and selling, the power of those who control prices has never been stronger. It's no wonder so much paper and actual gold and silver has been transferred. This, in essence, is what has occurred this year in gold and silver.

Admittedly, it took an unusual confluence of factors to cause the transfer of 50 million ounces of gold and 400 million ounces of silver this year. First, there was nearly a decade of spectacular price performance for gold and silver which peaked nearly two years ago. Being consistent, the outstanding price performance was what drew many to invest in gold and silver; in keeping with the theme of this article that price controls investor behavior. Obviously, many felt compelled to invest in gold and silver on past price performance alone. But if you live by the sword of buying strictly because price is climbing, so do you sell when price is falling. In hindsight, there were many such investors in gold and silver.

The introduction and wild success of the precious metals ETFs, in which actual gold and silver was purchased and taken off the market in the form of a stock purchase made a big difference. But because it was made so easy for investors to buy metal in stock form, it also made it easy for those strictly interested in price performance to buy ETFs, like GLD and SLV, as prices were rising. We went through a giant liquidation in SLV on the deliberate silver price collapse of May 2011, in which 60 million oz (20%) of the holdings were sold off and may explain why there has been no big liquidation this year. In contrast, this year's liquidation of nearly 11 million oz (25%) of gold from GLD appears to be similar to what occurred in SLV two years ago. Considering the extent of the GLD liquidation this year, particularly when compared to what occurred in the SLV previously suggests that liquidation is close to complete (yes, I've thought that before). Perhaps supporting this is the fact that the gold price has held above its low of more than a month ago.

My main point today is in explaining why we've had the liquidation in GLD and the extreme change in positioning in COMEX silver and gold and other markets. The explanation is that the price of each declined dramatically causing many to sell and that the reason for the price decline was because of price control by JPMorgan and other collusive commercials on the COMEX. This may sound simple because I am trying to make it sound that way. Gold and silver prices went lower and many investors sold because of those lower prices. What complicates the issue is the reason prices went lower; they did not go lower due to legitimate supply/demand factors they went lower due to price control. When the Federal Reserve causes lower interest rates through their control, they do so fairly openly and with mostly general approval. When JPMorgan and a band of commercials cause lower gold and silver prices through price control on the COMEX, it is done in the dark and in general violation of existing commodity law. The Federal Reserve holds press conferences and releases notes of their meetings; JPMorgan and the CME and the CFTC don't bother to even address open allegations of price fixing.

It's not hard to see the evidence of price control in COMEX gold and silver. On silver's nearly $8 decline this year, roughly $2 occurred over 4 days in February and $5 occurred in two days in mid-April. For gold's more than $300 price decline this year, roughly $100 came on those few days in February and $200 on the two day price smash in mid-April. Of course, there was no obvious supply/demand news for either decline in silver or gold, just mostly middle of the night price smashes brought about by price control. Basically, the entire price decline this year occurred on six trading days. How could that be possible without someone having complete price control? This is not a whine or rant; just an explanation for what occurred, namely, prices were taken down, on purpose, through price control.

If there is a purpose behind every instance of price control, as I contend, then there is a purpose for the purpose. No one engages in price control, particularly the illegal kind, without a darn good reason; including JPMorgan and the other COMEX commercials. In gold and silver, the clear purpose was to shake out as many existing holders as possible and to get those holders to sell to the commercials. Why now and not long ago at much lower gold and silver prices? It would appear that the commercials had to wait until enough investors had bought and enough time had transpired so that the gold and silver market became stale and tired, as all markets do periodically. Once it became clear that gold and silver were vulnerable to liquidation near the turn of the year, the commercials pressed their advantage by using their price control to continue to hammer prices. This was most obvious during the two day price smash of mid-April, when prices were blasted through a former triple and quadruple bottom in gold and silver going back years. This had nothing to do with fundamentals; it was all about using price control to cause as much selling as possible.

Are we done with the deliberate price takedowns? No one knows for sure, although the process is far enough advanced to look to what the commercials have planned next. Having accumulated the truly massive amounts of gold and silver through price control of the most obvious nature, the commercials would seem to be in the driver's seat. As such, JPMorgan and the commercials will decide what kind of journey gold and silver will take to the upside, whenever it begins. Will it be a short upside move, say moving back over the key moving averages in gold (ranging from $1500 to $1635) and silver ($25 to $30), or do the commercials have something much more extensive in mind? Considering the extent that the commercials have gone to in demonstrating their ability to control prices and attempting to look at it through their criminal eyes, I can't see why they won't shoot for the moon.

Price control is the most powerful factor in any market, until it stops working. That's true for entities like the Federal Reserve or the commercial crooks on the COMEX. While price control is in force, it dominates everything, including how we feel each day. Wake up to sharply lower prices and it gets the day off to a rotten start for most gold and silver investors. Put prices sharply higher (not seen much recently) and we have a bounce in our step. Feelings aside, it is important to recognize the folly of this and the inherent evil in illegal price control and focus instead on what's to come when the silver and gold price control is reversed, as it must be. After all, it would seem impossible that the commercials have rigged prices lower through price control for the purpose of selling out at still lower prices.

There are some investment truisms that have stood the test of time. Price bottoms are accompanied by negative sentiment, while at major price tops euphoria is the rule. I suppose sentiment could get worse than it is currently in silver (and gold), but the current sentiment is the worst since the dark days of late 2008, when silver traded below $9, or more than 50% below the price highs reached earlier in that year. Then again, that turned out to be the best time to buy silver in years. There were few then who would have expected prices to rise more than five-fold over the next two and a half years, although there were a number of bulls. http://news.silverseek.com/TedButler/1227032447.php

Back in late 2008, there were some unusual developments that indicated prices were oversold and likely to rise. Demand for physical silver was strong in the face of the sharply lower prices, from India to US Silver Eagles sales. Retail premiums on physical silver were high. There was a dramatic widening in the silver/gold price ratio, as silver was much weaker percentage-wise than gold. The total commercial net short position in COMEX silver futures fell to its lowest level back then since 2002. All these factors combined to create a price low that hasn't been challenged to this day, even thought that price low was double price levels of a few years prior to 2008.

Although the sell-off in 2008 seemed to be linked to a financial crisis and imploding stock market, those conditions have not been present in the current metal sell-off. Nevertheless, there are some remarkable similarities between late 2008 and today in the metals. Demand for Silver Eagles is much stronger today than it was then (by more than 50%), despite prices being more than twice as high today. Retail premiums on physical silver are high. Silver has been much weaker than gold, although not as weak as in 2008. Current COT readings for both gold and silver are even more bullish today as they were back then. The real kicker, however, is the absolutely massive amount of metal in all forms that the commercials have been able to trick former owners into selling.

I think the proper approach is still long term. The payoff in 2008 came two and a half years later. No one can predict the future with complete accuracy, but it seems prudent to think long term when it comes to silver. And think of how much more we know today than we did back then. In late 2008, I was just discovering that JPMorgan was the big silver crook and the CFTC had just initiated a formal silver investigation that persists to this day. Throw in the certain advancement of the knowledge of the illegal price control in force in COMEX silver and gold and it's hard to see how we won't be looking back at this time as a launch point.

Over the next day or so, I will be making my annual trek to Maine. Therefore, it is possible that the Weekly Review may be delayed by a few hours or even a day. Sorry for any inconvenience that may cause.

Ted Butler

May 29, 2013

Silver – $22.40

Gold – $1392