

May 3, 2010 – Time Is Running Out

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As the real facts in the silver market become more widely known, it is becoming increasingly clear that there is a major problem. Actually, there are a number of problems, all serious in their own way. Since these problems are becoming more evident to greater numbers of observers, the resolution to them is drawing closer. In analyzing the problems and their likely resolution, I can't help but conclude there are few available solutions. Because the solutions are limited and drawing closer to resolution, the message to potential silver investors is to carefully consider the circumstances with all due haste. The time for acquiring cheap silver is running out.

The problems in silver are inter-connected. At the root of the problem is a verifiable concentrated short position in COMEX silver futures. Concentration is the main hallmark of a price manipulation. There can't be a manipulation without a concentrated position. The concentration in silver is more extreme than in any other market; it is more extreme than any market in history. Because the concentration in silver is on the short side, not the long side, the manipulation must be a short-side manipulation, or one that has created artificially low prices. The simplest test for a manipulation is to ask what the price would be if the concentrated position did not exist. In the case of silver, the question is what price it would take for many traders to replace the concentrated holders. Ask yourself this: what price would it take you to sell or even to go short on silver? (Assuming you have a financial death wish).

Current data from the CFTC, in the form of their most current Commitment of Traders Report, indicate that the four largest traders hold almost 52,000 contracts net short, or the equivalent of 260 million ounces, as of April 27. The eight largest traders (including the four largest) hold a net short position of over 66,000 contracts, or more than 330 million ounces. That means the eight largest COMEX traders are net short the equivalent of 48.5% of the total world production of 680.9 million ounces. No other commodity has such an extreme short position relative to annual world production. The net short position of the eight largest traders in COMEX gold comes next closest at 32.6% (24.5 million ounces short versus 75.5 million ounce world production).

The COMEX silver short position of the eight largest traders is equal to 33% of total world bullion inventories, estimated to be one billion ounces. This is a stunning percentage. There is no real comparison with gold, as the 24.5 million ounce concentrated net short position by the eight largest traders is only 1.2% of the 2 billion+ ounces of world gold bullion inventories. In other words, in a comparison to total world bullion inventories, the concentrated short position in silver is 27 times larger than the position in gold. In every comparison possible, the short position in COMEX silver is always off the charts.

Further, the portion of the COMEX silver short position held by JPMorgan, believed to be the largest short holder, is indicated at roughly 150 million ounces of the 330 million ounces held by the eight largest traders combined. In the current regulatory environment which threatens to crack down on large proprietary trading by US banks, such a large bank short position would seem to be threatened.

The problem of concentration on the short side of COMEX silver futures is becoming common knowledge among those who study silver. Many hundreds have taken the time to complain to the regulators or have submitted public comments. (I'm told by a trusted source at the CFTC that those comments will soon be published). As such, the concentrated short position is drawing the scrutiny of regulators. Ever since I revealed and explained the data in the August 2008 Bank Participation Report, the CFTC has been investigating the silver market. This investigation is now 20 months old. When the investigation will be concluded is unknown, but we do know we are now 20 months closer to the ultimate resolution. In addition, there is compelling evidence that the Department of Justice has entered the silver manipulation investigation. This too, argues that the resolution is closer.

A problem related to the COMEX paper contract manipulation in silver is what it has done to the physical market. Because the price has been kept artificially depressed by the concentrated short selling, this has distorted silver supply and demand. The low price has enhanced demand and reduced supply more than would have been the case were the price not depressed. Sooner or later, this distortion must result in a shortage. Most of the signs I monitor indicate that the shortage is drawing near. The only known solution to any shortage is high enough prices to discourage demand and increase supply. Therefore, the solution to a shortage in silver is now only a matter of time.

The remaining problem in silver is that there is no easy way out. There is no magic solution or political compromise to make it go away quietly. That's because a physical shortage can only be solved with more physical supply, something that can't be, manufactured out of thin air, like emergency government bailout funds. This is a problem that impacts some very large financial institutions, including JPMorgan and some other large banks and trading entities, including the world's largest exchange, the CME Group. It is a problem that involves the regulators as well, but if they act quickly and forcefully, they may be able to sidestep much of the criticism that will be focused on the actual short selling perpetrators.

Superimposed on all the problems in silver is the glaring fact that there is so little of it left in world bullion inventories. The estimated one billion ounces remaining in world silver bullion inventories is less than 10% of what the world held 65 years ago. The US Government held, back in the 1940's, some 5 billion ounces alone. Today, it holds no silver ounces. In terms of dollar amount, the one billion ounces of silver is worth less than \$20 billion, a mere pittance in today's world. The dollar value of gold bullion inventories is worth more than 120 times more than that, at \$2.4 trillion. (2 billion gold bullion ounces x \$1200). More people are learning every day that the dollar amount of silver bullion in the world is less than 1% of the dollar amount of gold. It is only a matter of time before some big player tries to secure a chunk of what little silver remains. When that happens, say good-bye to cheap silver. With so little silver left in the world, and because it is priced so cheaply, who in their right minds would pick such an item to be short so heavily?

The big silver shorts, in a very real sense, are trapped, just like very big fish in a very small pond. Take a moment and put yourself in their shoes. They are sitting with very large short position in a market that may soon slip into a physical shortage, with the regulators, maybe including the Justice Department, breathing down their necks. What would you do? Start to aggressively buy back your short positions on rising prices? Since these big short traders have always sold on previous price rallies, any attempt by them to instead buy aggressively would cause the price to explode. Such a price explosion, in addition to causing self-induced losses on the remaining short position, would also immediately validate the allegations of manipulation. Or would you stall and delay buying back your shorts until the physical silver shortage hits or the regulators slap on the handcuffs? Or just default on your contracts and try to walk away? This would also cause the price to soar and prove that the silver market was manipulated.

I contemplate these limited outcomes continuously and can't see what other alternatives are available. Every solution involves sharply higher silver prices within a fairly short, if unknown, time frame, with varying degrees of liability, including possibly criminal. Stalling, as futile as it will be in the long run, is understandable. Who rushes to bankrupt himself or to default?

While it's important to imagine yourself in the other guys' place, in this case the big shorts, it's also important to know you are not in their shoes. You don't have to worry about how to cover a huge silver short position. Their problem is not your problem. Your problem is the opposite Â? how to acquire as much silver as possible before the big shorts panic or default. Or before the regulators finally step up to the plate. Before the price explodes.

This long term silver manipulation is a crime in progress. It is also the opportunity of a lifetime. This scandal is unlike any of the scandals that emerge in what seems to be every other day. This is a point too often overlooked. There was no profit to be made in knowing Bernie Madoff was a crook, short of getting out if you were an investor. There was no easy money to be made in the meltdown of panic of 2008, save shorting securities, which the average investor can't or won't do. There is no easy and sure profit that comes to mind in the current Goldman Sachs scandal for the average guy. All most of us can do with the various financial scandals of our time is to marvel at the unmitigated greed that abounds or grow angry with the lack of regulatory oversight.

But the silver manipulation scandal is tailor-made for anyone looking to profit. This profit is available to anyone who takes the time to study the facts. There's nothing complicated or tricky about positioning yourself to profit from the resolution of the silver manipulation. It's as easy as falling off a log. Just buy and hold silver and go about your life. Just remember to buy and hold while the time for buying and holding is available. Get while the getting is good. Temporary and artificial sell-offs are not to be feared, but welcomed as buying opportunities. The risk is not lower prices. The biggest risk lies in the time for low prices running out.

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