November 13, 2019 – Reading Between the Lines

Every once in a while, you run across an article that you feel really gets to the heart of the matter. I ran across such an article recently written by Ray Dalio, founder and head of Bridgewater Associates, the worldâ??s largest hedge fund with $150 billion in assets under management. Iâ??ve referenced Dalio in the past (I believe for good reason) and I do so today for an article he penned recently.

https://www.linkedin.com/pulse/world-has-gone-mad-system-broken-ray-dalio

While I urge you to read Dalioâ??s article in full, I am going to be so bold as to summarize his thoughts and then draw a conclusion as to why what he wrote is, perhaps, the best recommendation for buying silver â?? although Dalio never once mentioned silver in this article (or ever in the past to my knowledge). That might seem like a stretch, but please hear me out.

Mr. Dalio maintains that there is a virtual sea of investment money awash in the world desperate to find a home. He cites the near-impossible to imagine circumstance of venture capitalists pushing more money on startups that donâ??t need or want more capital under the threat of funding rivals if the startups donâ??t accept the unneeded additional capital. Dalio would appear to be in position to know such things.

He traces the source of the overabundance of global investment capital to the massive money creation by world governments and central banks since 2008 and foresees no chance of a voluntary retreat from the expansionist approach. At the same time, a severe financial crunch has developed with pension funds and the vast portion of the worldâ??s non-investment class population, which threatens social harmony. Dalio sees the entire situation as unsustainable and about to become unhinged â?? quite disturbing coming from someone said to be among the worldâ??s 100 richest individuals.

Dalioâ??s piece helped me in understanding better a number of things that I donâ??t think I fully appreciated and clarified and strengthened other things I previously embraced. To hear someone as successful and plugged in as Dalio talk about a world gone mad helped restore some balance in my personal feelings that many things have â??gone off the railsâ?•. At the same time, I think I have come to appreciate how so many asset classes have come to become so incredibly overvalued, including stocks, real estate and bonds. And while I still feel severe corrections could come at any time, I can also see how even more overvaluation is possible.

So where do I get off raising the silver connection with what Dalio wrote? After all, he never once mentioned silver or even gold (which he has mentioned favorably often in the past). The connection is this â?? in a world where all assets have been driven to extreme overvaluation based upon unprecedented monetary accommodation and the prospects for that accommodation continuing, wouldnâ??t extremely undervalued assets attract investment demand at some point? And in such a world where investment capital flowed at full force, wouldnâ??t there have to be a good reason why any recognized asset would buck the investment flow and actually register, on widely accepted valuation metrics, all-time depressed prices?

Of all the asset classes in the world none are considered to be more sensitive to monetary accommodation than gold and silver. From the coin-clipping of ancient Roman times to modern monetary accommodation by central banks, a bedrock principle for investment in precious metals has

always been a debasement of the currency. This is not my particular type of analysis, mainly because I consider it as largely a given, but in a world of unified monetary expansion and currency debasement the question becomes why wouldnâ??t gold and silver lead the pack of assets reaching overvaluation?

In other words, given Dalioâ??s top down view of the world, all investment assets should be at all-time highs and that is largely the case, with two notable exceptions â?? gold and silver. Therefore, there must exist some obvious and undeniable explanation for why gold and silver are not at the same all-time valuation levels as all other investment assets, like stocks, bonds and real estate. Further, since silver is extremely close to all-time undervaluation levels relative to gold (the silver/gold price ratio), there must be an equally obvious explanation for why silver is so cheap relative to gold.

As I hope regular readers know, there is an obvious and undeniable explanation for why gold and, particularly, silver are so grossly undervalued in price. That reason is due to the concentrated short selling of no more than 8 or so large commercial traders on the COMEX, led, over the past decade, by JPMorgan. Without that concentrated short selling, we wouldnâ??t be talking about how cheap silver is, relative to every other asset in the world – we would be marveling at how ridiculously overpriced silver had become.

Any discussion about the price of silver (and gold) that doesnâ??t center on the concentrated short selling of a few large traders on the COMEX is a waste of time. Unfortunately, this describes most discussions. I understand that the concept of concentration is unfamiliar to most precious metals investors and commentators and that is the most unfortunate circumstance of all. But please be assured that the concept of concentration is quite familiar with the CFTC, DOJ, CME and JPMorgan, which explains why all are eager to avoid the matter at all costs.

Rather than re-litigate the issue of concentrated short selling today, let me point out instead that to my knowledge there is no concentrated short selling in any of the asset classes trading at all-time high valuation levels. Certainly, no such concentrated short selling is possible in real estate, bonds or most stocks. If such concentrated short selling did exist, the assets wouldnâ??t be trading at all-time high valuations.

Yes, Iâ??m fully aware that there must be short selling in all derivatives contracts, including COMEX futures contracts, but concentrated short selling for the purpose of depressing prices is strictly prohibited by US commodity law. This is true despite the refusal of the regulators to address the issue. Itâ??s no coincidence that of all commodities, COMEX silver futures has a concentrated short position by no more than 8 traders of just under 500 million ounces or 60% of total world annual silver production. No other commodity has such a large concentrated short position. This is the reason silver is so darn cheap â?? period.

Most importantly, I believe the circumstance of the concentrated short position in COMEX silver futures is about to change radically. I believe the big shorts have overplayed their hand for so long that they will not short heavily on the next serious silver price rally. Without that additional concentrated short selling, there will not be sufficient selling pressure to cap the next rally. I say this for two reasons, as previously explained. One, is due to the reluctance of the 7 biggest shorts (ex-JPM) to put themselves into the great financial jeopardy they have been in (and still are) and two, because JPMorgan is about to double cross its fellow concentrated short sellers due to its massive physical holdings of silver and gold.

No doubt the new Commitments of Traders (COT) report on Friday will feature a substantial reduction in the concentrated short positions in both COMEX silver and gold futures. And it is certainly possible that continued price declines from here will feature even more of a reduction in future commercial concentrated short positions, but it remains to be seen if those future price declines will occur. I have doubts about those continued price declines. But I have less doubt that when prices do turn substantially higher that the 8 big shorts (including JPMorgan) will aggressively add to their short positions.

Can I prove to be wrong about this? Of course, I can prove to be wrong, but as you know, I have been very consistent in my beliefs to this point, namely, that if we do get a selloff (which we have gotten), it will be the last selloff. Is the selloff over? I donâ??t know, but when we do rally, that will be the big one. Where I will prove to be wrong (yet again), if I am proven to be wrong, is if the big shorts, particularly including JPMorgan, add aggressively to shorts once again. Of course, I canâ??t stop these crooks from adding to shorts on the next rally, but I donâ??t believe they will for the reasons previously outlined.

On Saturday, I mentioned that a â??blockbusterâ?• feature of the current COT report was a large amount of short covering in both silver and gold in the Producer/Merchant category and an equally large amount of new short selling in the Swap Dealer category, when viewing the report on a two week basis (to adjust for the now-acknowledged error in the COT report of Oct 29). JPMorgan is listed in the Producer/Merchant category. This was the basis for my blockbuster reference, namely, that it dovetailed with my double cross premise, in which JPMorgan would abandon its joint suppression of the silver and gold price with the 7 other big concentrated shorts. Therefore, I will be paying close attention to Fridayâ??s new report for further signs of JPMorgan abandoning the other big concentrated shorts.

As far as what Fridayâ??s new COT report will indicate, I will be shocked if there isnâ??t very substantial managed money selling and commercial buying in both gold and silver. After all, gold prices had declined by $30 over the reporting week ended yesterday, hitting new multi-month intraday lows for 4 of the 5 trading days of the reporting week. Silver declined by more than 85 cents, making new multi-month price lows each day of the reporting week. It was salami-slicing at its finest (thanks Izzy).

Even more than the substantial overall positioning changes I expect to be reported, what I believe will be even more important will be the details involving, among other things, what JPMorgan may have done relative to the other large commercial shorts, how many new short positions were added by the managed money traders and what, if anything, the big concentrated longs may have done.

One thing to keep in mind when viewing the new COT report is that any substantial short covering by the 7 big shorts in gold and silver will indicate, for the first time ever, that these shorts were bought back at realized losses (since the shorts were established at lower prices than they would have been bought back during this reporting week). While itâ??s true that the 7 big shorts recovered a boatload of open and unrealized losses during this reporting week, any substantial short covering necessarily involved the booking of realized losses for the first time ever. I canâ??t help but believe that if the big 7â??s open losses were converted to realized losses, even if the realized losses were much less than would have existed before prices were rigged lower, that is a supporting indication that these big shorts wonâ??t short aggressively again. But, of course, time will tell.

As far as any change in the big 7â??s open and unrealized losses since Fridayâ??s close, gold and silver prices are slightly higher at publication time, indicating the open losses increased a bit. Iâ??d peg the current level of the big 7â??s total combined open and unrealized losses in COMEX gold and silver futures to be higher by about $200 million, putting those losses at $2.3 billion.

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Silver – $16.94Â Â Â Â (200 day ma – $16.13, 50 day ma – $17.79)

Gold – $1466Â Â Â Â Â Â Â Â (200 day ma – $1394, 50 day ma – $1502)

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