

Weekly Review<?xml:namespace prefix = o ns =
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It was another historic week in gold and silver, with new price highs achieved in each. Gold closed around \$36 higher (2.6%) to a new all-time high of just under \$1400. Silver shot up \$2 (8%) to a new 30-year high of just under \$27. Volume was extraordinary, particularly in silver, with weekly trading being the heaviest ever, as measured by COMEX and SLV volume. In the past 11 weeks, silver has soared almost \$9 per ounce (50%), threatening the top range of the \$5 to \$10 pop I mentioned back in July.

As a result of silver's recent outperformance to gold, the gold/silver ratio narrowed in to almost 52. This is the best relative reading for silver since the summer of 2008, just before the price of silver was destroyed and manipulated lower by JPMorgan and other commercial crooks on the COMEX. Silver's prospective outperformance of gold is something I have espoused since I began writing publicly. Admittedly, silver has yet to leave gold in the dust, although it has fully matched or exceeded gold's price performance over almost every time frame considered. That is actually an advantage to those gold investors who have yet to make the switch into silver. It's not too late.

While there are now many new commentaries suggesting that silver is likely to

outperform gold in the future, very few come out and state clearly the logical action that should follow those suggestions, namely, sell gold to buy silver. I think this may be due to a fear that a commentator may be labeled as anti-gold. Let's face it □ gold evokes emotional feelings, quite apart from the pure investment merits. No one wants to provoke the displeasure of large numbers of gold investors. Certainly, neither do I. But if you are to write objectively, sometimes you must risk stating that which may not be popular. Because the facts suggest silver will outperform gold in the future, the logical investment action would be to convert gold into silver. Not because gold is likely to go down necessarily, but because silver is likely to offer better investment bang for the same buck.

The ironic thing is that I am becoming more convinced that gold's recent climb in price is likely due to it having caught the silver disease, namely, that the concentrated short position in COMEX gold is similar to the more intense silver version. Please remember that I am not suggesting a highly margined silver/gold spread position. That may likely turn out to be spectacularly profitable, but the degree of short term risk inherent in such a highly leveraged transaction is not something I want to be responsible for. I'm talking about a sale of gold (metal or stocks) and using the cash proceeds to simultaneously buy silver (metal or stocks). It's hard for me to see how such a switch could hurt anyone as time goes by (short term volatility aside). I further sense there is plenty of potential fuel for a big movement of gold money into silver, simply

because there is about 150 times more total dollar value of gold than there is silver, despite silver's price advance recently. The total value of all the gold bullion in the world is \$4.2 trillion ($\1400×3 billion oz). If just 1% of that amount, or \$42 billion, tried to move into silver, it would find a market whose total value is only \$27 billion ($\$27 \times$ one billion silver bullion oz). You don't have to be a rocket scientist to conclude that would cause silver to explode. My point is that there has been no big gold to silver switch yet. The key word is yet.

On the physical side this week, there was reduction of close to 2 million ounces in COMEX silver inventories, perhaps confirming my speculation that it might be connected to the new Sprott silver ETF and my theory of the cannibalization of existing silver inventories. In the big silver ETF, SLV, we witnessed an almost 2 million addition Friday and for the week, after a 2.7 million ounce withdrawal the week before. Considering the extraordinary high volume of trading in SLV shares this week and the strong price action, I can't help but conclude that many millions of silver ounces are now owed to the Trust. Even if this silver does flow quickly into the Trust, it will only confirm my sense of tightness in the physical silver market.

The new Commitment of Traders (COT) and Bank Participation Reports both confirmed some recent trends and revealed, perhaps, a new one. For the week, the latest COT indicated a reduction in the total net commercial short position of almost 2,000 contracts in COMEX silver and almost 6,000 contracts in gold.

These reductions came on an increase of more than a dollar or so in silver and \$15 in gold during the reporting week. Historically, this has not been the pattern, but it does confirm the more recent experience. The four and eight largest silver shorts' positions were unchanged for the reporting week, with the big 4 and 8 gold shorts increasing their positions by about 4,000 contracts.

Even though I can't call any one week change a trend, what stood out in the latest COT was that, in both gold and silver, the raptors (the commercials apart from the 8 largest traders) increased their long positions; by 2,000 in silver and almost 10,000 in gold. What makes this unusual is that I don't recall the raptors buying to the upside in the past. As I said, we can hardly call this a trend, but I can't help but wonder if these smaller commercials may be smelling blood in the water, caused by the shorts' financial bleeding.

In the Bank Participation Report for silver, the US banks (JPMorgan) were unchanged from the previous month, at 30,000 contracts, on a \$2 price increase for the month. I had been expecting a reduction in this short position, as the corresponding COT reports of the same dates (Oct 5 and Nov 2) had indicated a 3,300 contract reduction in the big 4 short position. My analysis would be that other entities in the big 4 category reduced short positions for the month, other than JPMorgan. I get the feeling that JPM wants to reduce their silver short position, but can't without causing prices to escalate much more rapidly than they have so far. With that thought in mind, I would speculate that

there was further short covering, perhaps including by JPMorgan, in the three days since the cut-off on Tuesday.

There is no question that the silver market is behaving differently and that the shorts are experiencing financial stress. The remarkable thing is that the overall and concentrated short positions have changed little on this big recent rally. This is not something that can continue indefinitely. Sooner or later, there must be a resolution of the concentrated short position, like many other aspects of the silver market. Even after an almost \$9 rally from the end of August, the 8 largest commercial traders on the COMEX still hold a net short position of the equivalent of more than 315 million ounces, virtually the same amount they held at \$18. Simple math indicates these eight traders are losing and have had to deposit more than \$2.75 billion, with JPMorgan (either for itself or on behalf of customers it controls) accounting for almost half of that amount. If one were to include all the short positions in COMEX gold and silver futures positions, the total open losses since the end of August may reach \$13 billion.

We have no recent history for such financial distress for gold and silver shorts, with the exception of the time around March 2008, when Bear Stearns was taken over by JPMorgan. No one knows how it will turn out this time, but I think it is safe to say that it won't be resolved quietly or without growing price volatility. I don't know what possible advice I could suggest other than to hold silver positions on a non-margined basis and emotionally prepare yourself for

dramatic price swings. I feel extremely fortunate that that has basically been my advice for these past few months and not to have suggested you try to time the market.

A good number of readers have asked about the historic election results this week and how that might affect the CFTC's implementation of the Dodd-Frank financial reform act. There has been much talk about a Republican-led outright repeal or the denial of funding for full enactment of the law. I try to avoid politics at all costs, but such talk doesn't concern me regarding the ongoing silver manipulation investigation or the implementation of position limits in silver. Funding shouldn't have a bearing on completion of the investigation, and it won't cost one red cent of taxpayer money to propose and implement legitimate position limits in silver. It's just a question of the Commission staff proposing the appropriate number of contracts or the formula used to derive that number and the Commission voting on it. Not only have I yet to hear a better number or formula than my 1% of world production formula, I haven't heard anyone suggest any other number or formula. The silence on this issue is remarkable, given its importance.

Lastly, here's a tip of the hat and a sincere thank you to all the Vets out there for your service and sacrifice to our country. This is the first time in my life that I won't be able to say that to my Dad, who like so many other veterans, simply did what needed to be done when asked.

November 6, 2010 - Weekly Review

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Silver - \$26.75

Gold -\$1395