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## Oct. 12, 2009 – Recognizing the Problem First

### Recognizing the Problem First

It's funny how you can pick up ideas that remain with you over an entire lifetime. I've had one particular idea in my head for so long that I have forgotten where and when it first occurred to me. I think it must have been back in high school, and for the life of me, I can't recall who gave me the thought, although I'm sure I didn't think it up by myself. Here's the idea – recognition of any problem is 50% of the solution. In other words, if you don't even know a problem exists, how the heck can you hope to fix it? One corollary, unfortunately, is if you don't recognize a problem soon enough, the solution becomes more difficult.

What's this got to do with silver? In my opinion, everything. That's because if you don't understand what's really driving the silver (or any) market, your chance of –solving– it is remote. In investment terms, solving the problem is the key to investing successfully. Figure out what makes a market tick and then take that knowledge and invest capital to make it grow. How does one get that knowledge? By reading and listening, and by applying your God-given common sense and really thinking about what's in front of you. And by asking questions, lots of questions.

Recently, I invited readers to email me if they had any questions concerning my writings on position limits and other topics that I think lie at the heart of understanding the silver market. Many responded and I want to use this opportunity to try to answer those questions. If these answers beget even more questions, then that's great. In my opinion, there is no such thing as a dumb question, only non-responsive or dumb answers. Only by asking questions and listening and thinking about the answers you are given can you hope to learn and gain knowledge. Oftentimes, what you will learn is that the answer doesn't make sense, or invites further questions. If you have noticed, I ask questions as well, such as why is one or two US banks being short 25% of the world mine production of silver not manipulation? Or under what basis should the position limits in COMEX silver be 6,000 contracts and not 1500? Or what the heck is behind the alleged hedges that permit the big shorts to evade even the current bloated limits? I keep asking because I've yet to hear legitimate answers. So should you.

Here's an actual question that was asked by many –

One thing that bothers me: you maintain in the latest interview that the drop in position limits to 1500 contracts would be the end of the manipulation. But I feel that you haven't made the case that exempting the bad guys from averaging 2 and 1/2 times over the present limit is ok, but they will play by the rules at 10 times over. If they're exempted, they're exempted. No?

This is a great question that encompasses the most common theme asked in most of the questions I received. Indeed, since the CFTC exempts the big silver shorts from the current 6,000 contract accountability limit, why won't they continue to allow them to be exempt from a new reduced limit of 1500 contracts? A variation of this question asked if the reduction of the position limits to 1500 contracts wouldn't actually be counterproductive, in that it would only apply to the longs and not the shorts, thereby strengthening the manipulators' control. In other words, a reduction in position limits would force liquidation by the longs and not by the shorts. Let see if I can address these very legitimate concerns. Remember, if I don't address them properly, I want you to get in my face with follow up questions.

While I am making this position limit business the central theme in what is important in silver currently, you must step back to gain proper perspective. The current focus on legitimate speculative position limits on commodities in general was not of my doing. I wish I could take credit for initiating the current debate, but that is simply not true. While I am trying to focus attention on silver, the one person who is most responsible for the debate is the new chairman of the CFTC, Gary Gensler. Based upon what transpired in commodities markets last year, particularly in energy, a groundswell of congressional and public outcry about excessive speculation emerged. From the Senate wheat report at the end of June, to the July 7 statement of Chairman Gensler on position limits, to the three days of public hearings at the end of July and into August, to the white paper issued by the CME Group almost a month ago, there has been a discussion on position limits at the highest levels. The word silver has hardly emerged, except from me and all the hundreds who have written to the chairman and Commission.

My point is that because the issue has been raised by Chairman Gensler and others, it will reach some type of conclusion this time. Whenever I have raised the issue over the past two decades, it was quietly buried. This time, it would seem kind of silly for the chairman to bury an issue that he has intentionally raised and has repeatedly spoken about over the past few months. I ask that you consider the issue first from this perspective. This is their doing, not mine.

As far as the CFTC continuing to exempt the big silver shorts from position limits of any level, I ask you to consider Chairman Gensler's own words and actions. He is the one who has raised the issue of these exemptions. He is the one behind the denial to Deutsche Bank's exemption to position limits in their agricultural ETF. He is the one who has stated that position limits must be applied fairly and consistently across all commodities of finite supply. Chairman Gensler is not a man who minces words. He speaks clearly and purposefully. I, for one, take him at his word.

If position limits in silver are reduced to 1500 contracts, as they should be, it will focus more attention on those holding positions above that amount, especially if the big silver shorts are exempted. It will force more to ask the same questions that you are asking of me, namely, why are these big traders allowed to hold these positions? Only, you won't be asking me; you will (hopefully) be asking Chairman Gensler and your elected officials. That's who I'll be asking. That's my point here. There is no good answer to the question "why are these big shorts allowed to hold these giant positions?" That's why it must and will be continued to be asked; until the question is answered or the position does not exist.

I know you are not supposed to answer a question with another question, and I'm not trying to do that here. I am trying to answer your very intelligent questions as to why won't the CFTC just continue to exempt the big silver shorts regardless of the level of the limits? My answer is that it is directly contradictory to what Chairman Gensler has stated publicly on many occasions. I am basing my answer on what Chairman Gensler has said about position limits and the exemptions to those limits and the intent and spirit of commodity law. If the Commission does continue to allow those exemptions it will have to answer for that. The key here is the incredible specificity of this question. Chairman Gensler is not, in my opinion, a weasel, nor has he ever used typical political weasel words. He is a man on a mission. That mission is legitimate position limits in all commodities. The issue of position limits will be resolved soon. If the issues involving silver have not been resolved and he is asked a direct question about silver position limits, I believe he will answer directly.

As far as the potential 1500 contract position limit being enforced only on the longs and not the shorts, thereby strengthening the manipulation, that is not a real fear to my mind. First, the total number of contracts held by the big longs that would be in excess of the possible 1500 contract limit is small, both in absolute terms and relative to the equivalent number on the short side. The big shorts hold positions in excess to the reduced position limits of almost 4 times the amounts held by the longs. Further, as I have written previously, any big longs forced to liquidate positions could replace those positions by buying physical silver, an option not easily available to the shorts (except by shorting shares of SLV). Therefore, anything that would result in more physical and less paper buying of silver would be good for the price and bad for the crooked shorts.

Also, putting restrictions on just the longs and not the shorts would be so unfair as to be almost anti-American. As I have said repeatedly, I think Chairman Gensler is a true public servant and has every intention of upholding the spirit of commodity law. I believe he takes his oath of office very seriously. For him to condone unequal treatment of longs and shorts is opposed to everything he has said publicly. Honorable men don't do that.

The bottom line is that any attempt to favor the shorts at this time would be counterproductive. Too many outside observers are coming to realize the scope and specifics involved in the silver position limit issue. I have heard no legitimate argument for why position limits shouldn't be reduced to 1500 contracts. I doubt I will. Besides, anything that allows the silver manipulation to continue at this point will only exacerbate the looming physical shortage.

As I said at the outset, recognition of any problem is 50% of the solution. In silver, I would bump that to 99%. That's proven by the very questions you are asking me. You are no longer asking me if and how silver is manipulated. Instead, you are asking me about the prospects of the manipulation being maintained. By the very essence of your questions, you are stating that yes, there is a manipulation, and you are asking very specific questions that acknowledge there is, in fact, a manipulation in progress. This is a far cry from times in the past, when the questions were simply about proving the manipulation. I have witnessed this up close and personal. I have seen your questions evolve from basic questions about how silver can be manipulated to the very specific questions about the mechanics of how long it can last. That is a sea change. In essence, you are answering your own questions. I assure you that this is not being lost on the regulators.

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