

Oct. 19, 2009 – The Proper Perspective

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Admittedly, I spend an awful lot of time discussing the Commitment of Traders Report and other reports issued by the Commodity Futures Trading Commission (CFTC). I also spend much time dealing with the prospects that the Commission may move to terminate the ongoing silver manipulation. I make no apologies for this preoccupation of mine, as I feel these issues are the most important ones that one can focus on in silver currently.

However, I do realize that in my preoccupation with these specific issues, I may at times assume too much in just how my message may be received by readers. I've been trying my best to end the silver manipulation for so long, that I often forget to stop and try to put things in the proper perspective. I know that while many have come to understand the manipulation and have participated in attempts to help end it, there is a very basic instinct that unites all silver investors, namely, the desire to profit from an investment in silver. So please allow me to devote some time to that common denominator.

There are many reasons why people invest in silver; mainly as a financial insurance policy against currency or financial turmoil, as an inflation/deflation hedge, or as protection against spendthrift government policies. These are all valid reasons, although I spend little time discussing them, as many others already do so. I much prefer to discuss silver's spectacular supply/demand fundamentals, which evolve around a depletion of world bullion inventories to levels that are the lowest in hundreds of years. That this inventory depletion has occurred precisely at the same time that myriad industrial applications critical to modern life have come to rely upon silver's unique properties is a circumstance almost unbelievable. While almost unbelievable, it is highly verifiable.

Also in the almost fantasy realm is the fact that just as silver has become so rare in bullion inventory terms, aggressive and seemingly unlimited investment demand has emerged after decades of a silver investment void. Nothing could highlight the investment potential of silver more than the fact that silver is now much more rare than gold in terms of bullion availability, despite sporting a price less than 2% of the price of gold. Topping off the silver investment story is that all these facts are only in the process of being learned by the investment world at large, affording an opportunity to those who learn the story in its infancy and act on it.

One of the proofs that the silver investment story is largely unrecognized lies in the media attention surrounding recent price performance. Media attention has been primarily concerned with the price performance of gold, even though silver's all-important percentage price increase has doubled gold's, in the full-year, year-to-date, and two month time frames. This is not a knock on gold, nor a complaint; this is just an observation. Of course, if you pick different time frames, you get different results. But my point is that, if one looks at it evenly, silver has matched or exceeded gold's performance over the past 5 or 10 years. Yet, there is little media attention on silver. This is something silver investors will have to bear — making money quietly. I think this is good, as it indicates silver has a long way to go before it could even be considered to be in a bubble. How can there be a bubble if few follow or invest in an item?

I'd like to mention an observation by a good friend, Carl Loeb. He pointed out that it is amazing that silver has moved up with gold, yet for no obvious silver specific reasons; it seems to be joined at the hip with gold price-wise. Silver just went along for the gold ride (a better ride, so far). Carl wonders what the heck will the price performance of silver be when some of the critical silver-specific factors start to kick in. It's a thought worthy of contemplation.

The main thrust of this article is to highlight the most bullish factor of all, the single biggest reason why you should be buying silver. That reason is because of the manipulation itself. The explanation is simple, even if I neglect to pound the table in each and every article I write. Silver would not be available at the current price if the manipulation did not exist. That is all anyone should need to know. I ask you to use your common sense. Ask yourself how could an item rarer than another very similar item be priced less than 2% of the more plentiful item in a free market? You could spend the rest of your life contemplating that question with no good answer. Or, you could quickly understand that the question itself is bogus, because such a circumstance could not possibly occur in a free market.

Because the manipulation of silver has created such a distorted low price, the manipulation itself is the silver investor's best friend. Yes, the manipulation should be abhorred because it is an affront to the rule of law and is an insult to the concept of the free market. Yes, the manipulation should anger you and move you to action to aid in its termination. Yes, the manipulation should result in severe penalties to those responsible in a just world. But, more than anything, the manipulation should inspire you to invest as much as your circumstances permit in silver. That's because a downside manipulation is the rarest type of manipulation. It is so rare that many cannot or will not acknowledge its existence.

It is true that the presence of the current large concentrated short position in COMEX silver futures and in the shares of SLV, the big silver ETF, create the risk of a sell-off of 2 or 3 dollars, according to my analysis. Whether that sell-off materializes is anyone's guess. But it is also true that the very same concentrated short position creates the potential of a \$20 or \$30 move to the upside, in my opinion. That's a risk/reward ratio of 1 to 10. If prices do sell-off temporarily, then the silver risk/reward ratio will improve dramatically, as, mathematically, risk will be further reduced and potential reward will grow. This risk/reward profile is something every investor should attempt to determine in every investment considered, not just in silver.

Let me be as specific as possible in disclosing what I am using as the components in my silver risk/reward computations. We will see the two to three dollar decline, if the dealers succeed in liquidating the technical fund longs in COMEX futures through the key moving averages to the downside. We will see the \$20 or \$30 move to the upside, the minute we see any move by JPMorgan, voluntarily or forced, to close out their manipulative short position. No one knows how it will play out. It wouldn't surprise me to see both moves, first down, then up, but I would just be speculating. But I will tell you this ^ the short position by JPMorgan will not last indefinitely. It is headed for extinction. I don't care how powerful or well-connected JPMorgan may be, their bloated silver short position's days are numbered. If the CFTC doesn't bring the end, the silver shortage will. Just because I don't mention it in every article I write, please don't assume I think otherwise. The short position of JPMorgan is the most bullish factor in silver. That's all you have to know.

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