

October 1, 2014 - Picasso and the Final Sell-Off

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There have been a swirl of thoughts bouncing around in my head these past few days in regards to the dramatic sell-off in the price of silver, gold and other commodities. Since this is my primary interest (and investment), most of my thoughts have been on silver. While I would never rule out the price of silver (or anything else) going higher or lower than I would imagine, it is with amazement I've watched this recent two month and four year slide in the price.

At times like this, when silver slides much further than expected, one of the questions I ask myself (because I wouldn't know who else to ask), is can silver go worthless or bankrupt or simply disappear as the price action would seem to suggest? I also ask myself if there are any visible signs to support a sudden increase in actual silver supply or a sudden fall-off in actual demand. Invariably, I quickly answer "no" after full consideration. One question I always ask myself is why the primary silver miners tolerate the deliberate price smack downs without a bleat of protest.

When the sell-offs are particularly severe and historical in nature (as is this one)

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I often revisit older thoughts and long held premises. One such thought is the colorful description uttered by my old friend and silver mentor, Izzy Freidman (still missing), whenever the collusive commercials were close to completing a big repositioning of the technical funds to one side or the other of the market. Izzy would say, "Oh, I see they've just painted a masterpiece" a Picasso or a Rembrandt, meaning the commercials had manipulated prices lower or higher, in a way consistent with inducing the maximum amount of technical fund positioning. Of course, he was describing the finishing of a series of new price lows or highs that he had called "slicing the salami" which, while in progress were the brushstrokes used by the commercials in completing their manipulative work of art.

Izzy was good that way, summarizing what could be a complicated market process by using an everyday term in a way that just seemed to fit. It certainly made our conversations understandable and to the point. Looking back over the past two and a half months, I can't help but believe that the commercials may have painted their best Picasso in silver ever.

The facts are clear - the commercials have reduced their total net short position in COMEX silver every week for the past eleven weeks of declining prices and I'll be shocked if this week's COT doesn't make it twelve weeks in a row. By my

estimate, the commercials have purchased close to 50,000 net contracts of COMEX silver since the price highs of mid-July, the stunning equivalent of 250 million ounces. How the heck could one collusive group of traders buy over 30% of the world production of an important industrial commodity on a 20% reduction of price in less than three months if they weren't resorting to dirty tricks in some way? By painting a Picasso.

There is one thing about the salami slicing of the price of silver (and gold, copper, platinum and palladium) that I don't recall spelling out before. Because the technical funds only respond to a series of new price lows or highs to establish a maximum position that is the manner in which the commercials rig prices. In other words, had the commercials blasted the price of silver down by \$4.50 in a few days (as is within their power), only a small fraction of the silver contracts that were sold by the technical funds would have been sold.

This solidifies and further proves the ongoing silver manipulation because it provides the only possible motive for why prices fell so much □ so that the commercials could buy 250 million oz of silver equivalent. Now that the commercial buying is done or close to being done, it's time for other thoughts.

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As colorful as Izzy could be in turning a phrase to describe the goings on in silver, we did have some differences. Once he became convinced that silver was manipulated (after quite a few years of not accepting the premise), it was natural to analyze and predict how it would end. Certainly, we agreed that a physical shortage was the sure end, because the price of silver was too low and that must lead to an eventual shortage. Where we disagreed was that when the silver shortage arrived, would the commercials be well positioned for the certain price rise a shortage would bring or would they be caught flat-footed and fully short. Izzy was of the opinion the commercials would be blindsided (Please see ["Full Pants Down"](#) in the archives Oct 8, 2009).

I always held that while as crooked as a June day is long, the COMEX commercials and JPMorgan in particular, were smart crooks and would know in advance of a pending silver shortage and position themselves as advantageously as possible. (I suppose since Izzy disagreed with me, he didn't bother to come up with a colorful term to describe what I thought). Knowing the commercial/technical fund price tango for more than 25 years, I always thought that the final silver price bottom would come after a special type of sell-off that Izzy himself would come to call a Picasso.

The final sell-off wasn't likely to be a brutish affair in which silver prices were

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smashed lower too aggressively for the technical funds to jump aboard the short side. It had to be a sell-off of such precision and skill to assure the maximum technical fund and speculative selling that would enable the commercials to buy and position themselves as favorably as possible. While it's always possible that I will be wrong, this current sell-off looks like Picasso's greatest work, *Guernica*. (Only with the silver shorts to be bombed).

Of course, I must be open to the possibility (some would say probability) that this might not be the final sell-off because the commercials could once again sell aggressively on the next rally and let the technical funds off the hook with minimal damage. This year alone, in February and June, the commercials sold aggressively on subpar silver rallies of around \$3 when they could have extracted from the technical funds much, much more. Worse, I still don't fully understand why the commercials let the technical funds off the hook so lightly on those two prior (and other) occasions. The best I can come up with is that the commercials knew they were in firm price control of the COMEX and knew that they could dictate what the technical funds would do in advance; that the commercials knew they could put the technical funds back on the short side whenever they wanted to.

While I fully understand why many would assume the commercials would do

again what they've already done twice this year so far, I still hold that the coming silver rally should be treated as if it's the big one. For one thing, if this does turn out to be the big silver move that I have been expecting for decades, there will be no do-overs or second chances to get on board □ one will either be on board for the big silver move from the bottom or not be on board from the bottom.

Being a little early will be a lot better than being a little late as and when things unfold as I've long imagined. Secondly, if it does turn out that the commercials sell aggressively on the next silver rally and cap the price yet again, there will still be a rally and one could lighten up at that point at higher prices than prevail today. My point is that given the current market structure, a silver rally appears to be coming and only the timing and extent of the rally are in question. Waiting to see what happens after the rally commences may mean waiting too long. At this point, that doesn't appeal to me.

While I do admit we could be looking at a capped and failed silver rally yet again, I would ask you to consider something else I have been thinking about a lot recently. I would ask you to put this decades long silver manipulation and seemingly never-ending series of failed rallies on fast forward. Without trying to pick the exact time the silver manipulation may end, please try instead to

imagine failed rallies of the type we've seen this year continuing indefinitely. Is this the type of operation that can exist forever?

Let me first describe, as objectively as I can, what I mean by this "type of operation." I am talking about an operation that is against the law. To that end, I have petitioned the regulators to end it for more than a quarter century, explaining in repetitive but hopefully clear language why and how silver is manipulated in price. Over the last few years, I have even taken to referring to specific and powerful entities, such as JPMorgan, the CME Group and even the CFTC as crooks.

I have succeeded (with your help) in instigating three separate CFTC investigations into silver manipulation and while the agency has always denied a silver manipulation exists, it still saw fit to investigate on three separate occasions. I believe a clear reading of market sentiment shows that more believe silver is manipulated in price after the CFTC's denials. Does that sound like that would add to the longevity of the manipulation?

How long can JPMorgan and the CME and the CFTC allow themselves to be

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called crooks? Please remember these are institutions that exist by virtue of a sound reputation. Alternatively, who doesn't know that JPMorgan is the big COMEX silver crook as a result of taking over Bear Stearns? Silver prices have declined so much that I doubt there is a primary silver producer that can mine silver at a profit at current prices. Is that circumstance conducive to the silver manipulation being extended indefinitely?

The one way the silver manipulation could end, with or without a shortage, is if those primarily responsible for running it decide it will end by not selling on the next or a future silver rally. Let me share some new thoughts on this matter. For a long time I had assumed one main impediment for the COMEX commercial manipulators to end the scam was that the resultant exploding silver prices would harm the crooks in that it would prove the manipulation to all. But after watching this last sell-off, I've changed my mind about this.

I don't think there could be a more obvious rigging of prices lower than what we have observed on this current sell-off, including the clear motive for the lower silver prices, namely, so that JPMorgan and the other collusive and crooked COMEX commercials could buy as many silver contracts as they have. Yet the CFTC and the joke of a self-regulator, the CME, have looked the other way and avoided addressing what has become a fact □ that prices are set on the COMEX

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and not by actual supply and demand. And for some time, I have had zero expectations that either the CFTC or the CME would ever do the right thing and end a crime recognized by more observers daily. What dawned on me is that this refusal to enforce the rule of law might be good news.

Since the CFTC and CME will not intercede in the silver manipulation, no matter what, I've become convinced that they will not do anything if the commercials decide (as is in their power) to let silver rip to the upside. Why would they? The regulators have ignored every manipulated move lower in silver for 30 years; why would they intervene if the commercials decide to ring the cash register to the upside?

As I said, maybe my fear that the end of the manipulation would reveal that silver was, in fact, manipulated all along was ill-founded. I am now convinced that JPMorgan and the other crooked COMEX commercials will be given the same free ride to the upside in silver as they have been given to the downside. And after reading what passes for silver market commentary and analysis in the main stream media on the way down, I'm more than confident that when silver does explode, few will have a real clue as to why.

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In summary, I still hold that an important bottom is at hand in silver due to commercial positioning on the COMEX and considering the Picasso-like masterpiece that the commercials have created, it should be treated as the big move in silver lies dead ahead. Accordingly, I've completed the accelerated call options purchases I recently written about. I'm out of option money for now.

Two very recent developments I'd like to comment on are the continued deposits of metal into the big silver ETF, SLV. Last night, a further 4 million ounces were deposited into the trust, bringing total deposits over the past few months to nearly 30 million oz and total holdings in SLV to over 350 million oz. While the SLV now sits within striking distance of its former record silver holdings of around 365 million oz in April 2011, the gold holdings of GLD, the big gold ETF have slipped to the lowest levels of the year and going back as far as early 2009. I can't come up with a more plausible explanation than some investors have been motivated to buy silver because of the steep discount of price to perceived value.

Yesterday, the US Mint reported that Silver Eagle sales exploded on the last day of the month with more than 750,000 coins sold on one day. Aside from big reported sales when new coins are sold in January of each year, I don't recall such a large sale of coins occurring on one day. What made it interesting was

that the Mint had reported sales on Sep 29, so it was easy to conclude that it was a sale of more than 750,000 Silver Eagles on one day.

http://www.usmint.gov/about_the_mint/index.cfm?action=PreciousMetals&type=bullion

The only way for such a large number of coins to be sold on one day is that the Mint had produced the coins previously. You may remember that it wasn't that many months ago that the Mint was struggling to produce enough Silver Eagles as were being demanded and that was the case, more often than not, over the past few years. Since plain vanilla retail demand wasn't strong enough to explain the high level of Silver Eagle sales, I theorized that a big buyer must be accounting for the surge of Silver Eagle buying that persisted up until a few months ago. I further speculated that Mr. Big was likely the crooks at JPMorgan.

Silver Eagle sales began to cool in May of this year and since retail demand had remained lackluster thru July, I further speculated that Mr. Big had stepped away from buying around then. Looking at this month's and yesterday's large amount of Silver Eagles sold, my first inclination is to explain the sharp increase in sales of Silver Eagles by a return of Mr. Big. But I have a problem with this.

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The US Mint had, obviously, built up an inventory of Silver Eagles as a result of the softening in sales starting in May; otherwise it wouldn't have the quantity of coins to sell that it reported sold. The problem as I see it, is that the coins previously produced were manufactured with silver bought at much higher prices (around \$3 higher) than the price of the coins sold yesterday and thru the month of September. If someone (say JPMorgan) was the big buyer, that means not only is the price of silver being manipulated with tens of thousands of investors and producers being cheated, now the US Government and its taxpayers are being played like a fiddle and cheated in its sales of Silver Eagles at prices manipulated lower than the Mint secured the silver. Do you think JPMorgan would do such a dastardly thing? Count on it.

Ted Butler

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Silver - \$17.20

Gold - \$1215