October 17, 2012 – Izzy's Back/In the News

It has been quite some time since my good friend and silver mentor, Izzy Friedman, has written something about silver. Devastated by the loss of his wonderful wife of 56 years, Gabriella, Izzy withdrew from his daily silver market observation and our telephone conversations in order to restructure his life around family and travel and contemplation. We have started to talk more frequently and he agreed to write something.

For those who may not be familiar with Izzy, it was a personal challenge from him to me almost 30 years ago that started me on my own silver journey. Back in 1985, Izzy asked me how it was possible for a commodity that was being consumed in greater quantities than was being produced could fail to rise in price, as was dictated by the law of supply and demand. There was no doubt that silver had been in a consumption deficit for decades, depleting world inventories all along, yet the price went nowhere. I could not answer his question, but was determined to do so.
It took me a year to discover that the price was artificially depressed by excessive and concentrated short selling on the COMEX.

Once you are enlightened by the flame of knowledge, it doesn't extinguish itself easily. My discovery of the silver manipulation, for better or worse, has been with me ever since. I have always felt in debt to Izzy for enabling me to see the silver manipulation, even when that knowledge seemed more like a curse, back in the 1990's. The best part about Izzy was always his sound common sense and as the best sounding board possible. Even though he was skeptical of the silver manipulation at first, in reality he's more responsible for today's general knowledge and thinking on silver than any other single person. To this day, I remain convinced that his article back in 2007 on US Silver Eagles was the catalyst behind the surge in sales that began shortly after his article and continues to this day.
http://www.investmentrarities.com/ted_butler_comentary/12-03-07.html Sales of Silver Eagles quickly doubled and tripled after his article and have never looked back. I do hope in his return that he intends to stick around for a spell.

What Now For the Price of Silver?

By

Israel Freidman

Many years ago, when the price of silver was $4 to $5, Mr. Ted Butler and I wrote many articles in which we predicted that silver would be a great investment for the long term. Now that prices are 7 to 8 times higher, we can say that we were right. More importantly, the reason we were so bullish on silver had to do with supply and demand and nothing to do with inflation or the value of the dollar. I still feel that way. The only thing that has changed is the price and not the reality of supply and demand. Silver demand still is on a course to overwhelm silver supply and when that occurs in any commodity, look for higher prices.

We must first consider the state of the world today and into the future. The world population has just hit the 7 billion person mark, up from 6 billion twelve years ago. The world adds 75 million new souls each year. In addition to the greater numbers of new potential consumers, there is also a move to increased standards of living in places like India and China. Overall improvements in longevity mean that we have more people living and consuming longer than ever before. At the same time, the raw materials necessary for everyone to live better are getting harder and more expensive to produce. Will we have enough raw materials to sustain the march towards higher living standards? I say yes, but at what cost? Those necessary raw materials will not come to us cheaply. Therefore, it would seem wise to set aside and hold those raw materials which are destined to climb sharply in price.

The best raw material to hold in my opinion is silver. That's what I felt 30 years ago and is what I feel today. Silver one of the very few commodities that the average person is capable of holding in his own possession. In particular, the US Mint makes the most beautiful and popular coin in the world in the form of the US Silver Eagle. So popular is this coin that I am still convinced that someday the US Mint will not be able to keep up with demand and the premiums on these coins will explode when the US Mint stops producing them. The way the world is going it appears that all the trends point towards greater silver demand. It looks to me that everything in the future will run on electricity, of which silver is the best conductor. Throw in the tremendous appeal and growth of solar panels and it's hard to foresee how silver won't be a raw material superstar. Because it is so easy for the average person to hold and so cheap compared to gold, one of the biggest demands for silver will be from investors. These investors will compete long term with the silver users who must have silver as a raw material. This is a potential buying combination that is not present in any other commodity. That's what makes silver so special.

Naturally, if silver looks set to move sharply higher in price over the long run, it is normal to try to guess when and how high? I didn't know the timing 30 or 10 years ago and still don't know today, so the easiest thing to do is not to focus on the timing. Just don't fool yourself into thinking the high price of silver will come when you want it to, as that is not how things usually work in life. The best thing to do is to only buy and hold silver with spare money and not to borrow money to buy it. This way you don't create unnecessary pressures to sell along the way. It's easier not to worry about an investment when you don't owe money on it. This is especially important because it is clear that there are some big shorts that do nothing but try to knock the price down. Try to be prepared for sharp sell offs and use them to add positions at times when the price is down.

How high can the price of silver climb? Based upon its importance as a raw material, I still believe that silver will pass the price of gold which is not needed as an industrial material. Besides, I still believe that silver is much rarer than gold in above ground inventories and even my grandchildren know that the rarer item should be more valuable. While Mr. Butler is not quite this bullish, I remind him that if the shorts he always talks about are forced to buy back in a physical shortage that will add a lift to silver prices almost beyond our comprehension. I also remind him that because there are no big government stockpiles in silver (as there are in gold), no government can come to the aid of the shorts when the moment of truth arrives and there is not enough silver to go around. Since the world has never seen a real silver shortage, it hard to pick a precise price to reflect something that has never happened.

What I can tell you from my experience is that the most insane prices occur when there is a shortage. From the beginning 35 years ago, I have always expected a silver shortage to occur. That was the main reasoning behind my attraction to silver. I think the big increase of 7 to 8 times in price was due to the market sensing that a big silver shortage is developing, but there have been no signs of a big silver shortage that is clear to everyone. When the big silver shortage comes and everyone can see it in widespread delivery delays and force majeure, only then should the price be measured. A price can sound crazy-high in conditions we are familiar with, but not high at all in a true shortage where the only other choice is to do without and send factory workers home. Maybe you and I won't buy at the high prices in a shortage, but an industrial user doesn't have much choice to buy if he needs silver, the raw material. My goal is to sell when the shortage is at fever pitch. That's why I don't look at inflation or the dollar – I'm more interested in considering the silver shortage.

As time has passed, I am happy to have written about silver and how it has gone up and rewarded so many. I think the future will look the same way. This is the first article I have written since my beloved wife passed away and this is for her memory.

In The News

I'd like to comment on two stories that I may have mentioned previously that are central to silver, although you need to dig deeper in order to get to the connection. The first, in my opinion, is an accurate take on the recent court ruling blocking the enactment of position limits by the CFTC. I have previously referenced Michael Greenberger, a law professor and former CFTC director for their Trading and Markets Division. I am largely in agreement with Greenberger in this interview, but would like to suggest one thought to keep in mind should you decide to watch the interview or read the transcript.

Professor Greenberger, like virtually all expert commentators on the issue of the need to impose position limits to prevent excessive speculation or manipulation, considers such limits only in terms of preventing artificial high prices for commodities. I understand how excessive speculation can drive prices higher for food and energy causing harm to millions of innocent consumers and drawing the ire of politicians and regulators. I think such excessive speculation on the long side should be restricted by legitimate position limits. That's so basic that it is almost impossible to argue with.

But excessive speculation is not necessarily limited to the long side; such speculation can and does appear on the short side as well. In fact, the most extreme instance of excessive speculation, according to CFTC-published data, is in COMEX silver on the short side, where one trader (JPMorgan) holds 32% of the total net open interest (ex spreads). Along with a separate foreign bank, the two traders hold 42% of the total COMEX silver market. It is important to remember that commodity law does not seek to set the price of any commodity, either high or low. What the law intends is to set a level playing field and create an environment of open free market competition. One or two traders holding a 30% or 40% share of any market necessarily restricts competition and dominates price.

There is no way in this world that one or two banks would be allowed to hold 42% of any regulated futures market on the long side. As a long term student of the COT, I can't conceive of such a concentration on the long side of crude oil or corn. Such a market share would cause prices to be artificially high and would result in Prof Greenberger and every other expert commentator and regulator screaming bloody murder about concentration and manipulation. While most are concerned about the potential for such a long side concentration, the reality is that it currently only exists on the short side of silver. The law does not distinguish between excessive speculation on either the long side or the short side and neither should Prof Greenberger or anyone else. I would ask you to keep this in mind if you review the interview. http://therealnews.com/t2/index.php?option=com_content&task=view&id=767&Itemid=74&jumiva

The other news item concerns the recent civil lawsuit against JPMorgan filed by the New York Attorney General for mortgage related violations by Bear Stearns, which JPM acquired in 2008. I previously mentioned that Jamie Dimon, CEO of JPMorgan, had commented that the bank did the US Government a favor in taking over Bear Stearns and not the other way around. Trying to be fair, I am still inclined to agree with Mr. Dimon on this matter given my reading of the circumstances. Here's a version of the story highly sympathetic to Mr. Dimon's take on the New York AG's lawsuit. http://dealbook.nytimes.com/2012/10/15/nowadays-wall-street-saviors-may-wish-they-werent/

While I am not particularly partial to JPMorgan given their role in manipulating the silver market, it doesn't seem fair to me to hold them accountable for wrongdoing at Bear Stearns that occurred well before the takeover by JPM. Of course, I'm speaking as a layman and not as a legal expert in such matters. (The sins of the father should not be visited upon the son and all that). If you didn't do the crime, you shouldn't do the time or pay the fine. But the same principle should apply when someone does do the crime, as is the case in silver. Someone, perhaps the NY Attorney General, should be going after JPMorgan for what the bank has done in silver. My reasoning is simple Â? JPMorgan used their takeover of Bear Stearns to begin to manipulate the price of silver after the acquisition, not before.

So clear is the matter that the silence from JPMorgan to the allegations of a silver manipulation is astounding. As the Deal Book story suggests, Mr. Dimon was elevated to superstar status as a result of the merger, often referred to as the Â?King of Wall Street.Â? Truth is I admire Dimon's no-nonsense and straight talking manner which is rare at the highest levels. While I am troubled by the constant lawsuits and legal settlements that seem to engulf JPMorgan, I have found Mr. Dimon's personal manner to be refreshing. The man never seems to duck and evade and neither does the bank. That is, there is no waffling on anything except silver. When it comes to silver, Mr. Dimon and JPMorgan are virtually mute and impervious to serious charges of wrongdoing.

Of course, there is a ready explanation for the collective silence to my mind, namely, avoiding self-incrimination. Neither Dimon nor JPM can deny their concentrated and manipulative short position in COMEX silver, nor can they offer a plausible defense of it. I suppose if you can't deny or explain an illegal activity that you might be engaged in, it is best to keep your mouth shut. In addition to sending Mr. Dimon any article in which I mention JPMorgan's role in the silver market (hundreds to date), I have written to each member of the board of directors with my allegations of manipulation. I intend to continue with this until a resolution is achieved.

While it appears this can go on indefinitely, that may not be so bad. Despite the manipulative influence of JPMorgan on the price of silver, the price has managed to climb over the years more than just about anything else. In addition, more have come to appreciate the real silver story because of the documented evidence of JPMorgan's involvement. The silence from JPM, the CFTC and the CME has only added credibility to the allegations. This story is not going away anytime soon. It does remain true, however, that there are more bullish factors in silver than can be calculated; but only one potentially bearish factor. That factor is JPMorgan and their concentrated short position. Someday that sole bearish factor will no longer exist and for the very first time silver will no longer be manipulated in price. That will be a very good day for silver investors.

Ted Butler

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Silver – $33.15

Gold – $1750

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