Oprah?

Who would have thought that the entertainment celebrity and media mogul Oprah Winfrey would give the financial world a demonstration of the impact that short selling can have on the price of a stock? Certainly not me. Yet, in a matter of days, that would appear to be the case, following the announcement late Friday that Ms. Winfrey had come to own a 10% stake in the stock of Weight Watchers International (ticker symbol WTW).

WTW closed at $6.79 on Friday; this morning it traded as high at $19.94 before retreating. That's a triple (300%) in little more than two full trading days. Weight Watchers stock had started the year near the $25 mark and was down more than 70% on Friday's close before the Winfrey announcement. To say that Oprah has star power would be an understatement, but the reaction in price of WTW stock was well beyond the disclosure of her ownership. As it turns out, the real reason for the explosion in the price of the stock was short covering, or the buyback of previously shorted shares.

As of September 30, there were more than 15.7 million shares held short in

WTW, 57% of all the shares on a "float" basis (total shares available for trading). The percentage of shares held short on average for a typical stock is closer to 3%, so the number of shares held short in WTW must be considered unusually large. In the weeks before Friday's close, on most days trading volume in WTW was less than a million shares a day.

http://shortsqueeze.com/?symbol=wtw&submit=Short+Quote%99

In the two days (Monday and Tuesday) following the announcement of ownership, trading volume exploded to 70 million shares a day and the only possible (forget plausible) explanation was a rush to buyback shorted shares. Further, most commentary has pointed to the overall weak position of the company which only underscores why the price of the stock surged on extremely high volume. Clearly, the price action in the stock can be traced to the very large short position. (For those looking for additional information, today's Wall Street Journal has good coverage – subscription required).

Longtime readers may already know where I'm going with this, namely, that here we have yet another real world example of how excessive short selling can affect the price of a traded asset. This happens to be the prime mechanism for the decades-old manipulation in silver. As such, let me offer a simple explanation for a short sale.

In essence, a short sale is the sale of something you don't own at the time of the sale. In the case of stocks or other securities, the shares must first be borrowed from another existing owner (although I'm not sure how rigorously that requirement is administered). In the case of commodity futures and other derivatives contracts (such as COMEX silver futures), no borrowing is required and a short seller can sell in unlimited quantities into whatever derivative buying exists.

Most people can't quite understand how anyone can sell something not owned, as it is not something that occurs in daily life. This is a prime reason, I would contend, that the silver manipulation has persisted as long as it has. And for the sake of this discussion, I'll try to be as clear and simple as possible and not get into my specific debate on short selling in SLV (or GLD), which can be quite complex.

There are two distinct price impacts from excessive short selling — first, the price is artificially depressed as the selling occurs. It matters not whether someone owns the asset or not, or has borrowed the asset first before selling or not excessive selling will drive a price lower. The emphasis here is on excessive short selling. After the price of an asset or security is driven lower by excessive short selling, any rush to buyback excessive short sales can drive prices sharply higher, as was seen in the WTW example. However, it doesn't always follow that excessive short selling in a security must be bought back, as sometimes a company can go bankrupt and, effectively, eliminate the requirement to buyback short sales.

That's not a concern in silver or any other real asset, as such assets can't declare bankruptcy. Furthermore, all short sales on futures contracts that allow and require physical delivery, such as COMEX silver futures contracts, must be closed out at some point, either by actual delivery or by repurchasing an offsetting futures contract to close out the previously shorted contract.

I know that the vast majority (97% or more) of all short sales in commodity futures contracts, as well as corresponding long positions, are closed out by offsetting positions or can be rolled over or extended far into the future. But that has nothing to do with the right and obligation of a contract holder to make or take physical delivery should he or she so decide. To my mind, that's why they are called contracts. Anyone suggesting that there is some way the COMEX silver shorts can insist on some type of "cash settlement" if an existing long contract holder demands physical delivery and can afford to pay for the delivery is flat out wrong. Such a refusal or inability to deliver would result in a contract default and the likely closing of the COMEX.

With the continued emphasis on excessive short selling, the comparison between what just happened in Weight Watchers International stock and COMEX silver futures is remarkable. There's no doubt at this point that the two day 300% explosion in WTW stock occurred because such a large percentage (57%) of the stock float was held short and many of those short sellers rushed to buy back. This had little, if anything to do with this company's actual prospects or fundamentals and everything to do with excessive short selling, followed by the rush to buy back those previously shorted shares.

On Saturday, I explained how just 8 traders were short the equivalent of more than 400 million oz or 50% of world annual silver mine production. I expect this week's COT report to be even more extreme. What I didn't explain was that in terms of true concentration, the numbers are much worse. When you remove the number of spread positions in last week's silver COT report, amounting to at least 27,800 contracts, the 80,834 contracts held net short by the 8 largest traders make up 60.5% of the total net open interest in COMEX silver. Let me repeat that because it is so extraordinarily large – the 8 largest traders on the COMEX are short more than 50% of world silver mine production and hold more than 60% of all the net short positions in COMEX silver futures. That's more extreme than the short position was in WTW stock.

Since concentration is the number one indicator of manipulation, because a manipulation can't possibly exist without a concentrated position, one would think that the regulators at the CFTC and the CME Group would be jumping all over this. I didn't invent or dream up the concept of concentration and manipulation; this concept is embedded and spelled out in commodity and antitrust law. I didn't conceive or implement the reporting of concentration in every long form COT report; this is something the CFTC and the exchanges did on their own. I'm just reporting on the concentration data that the CFTC and the CME have published and asking out loud don't these clowns and crooks know what they are reporting?

Sadly but wisely, silver investors have come to expect nothing but continued malfeasance by the regulators in this very important issue and nothing but continued coddling by the regulators of the 8 biggest silver shorts, led by JPMorgan. While I'm not suggesting that the regulators will ever do the right thing in silver like ending the illegal concentration on the short side on the

COMEX □ that doesn't mean I will (or should) lighten up on attacking their failure to regulate.

Yet even with the requirement to deliver physical metal should that metal be demanded and even with clear signs of tightness in the wholesale physical silver market, there have been no known episodes of commercial short covering in COMEX silver to the upside in price. Then again, there was no demonstrable sign of an epic short squeeze in shares of Weight Watchers International until this week. But there are some big differences between the excessive short selling in WTW and that in COMEX silver.

For one thing, there are no detailed statistics as to who was holding the short position in WTW and no way, therefore, of knowing if that short position was concentrated, or held by a small number of large traders. The bad thing is that we know that the COMEX silver short position is concentrated from CFTC data. In fact, if it weren't for the 8 big shorts in COMEX silver, there would be no commercial short position at all. The 8 largest shorts hold the entire commercial net short position.

And this is a big difference between silver and gold and why silver must be considered more manipulated in price than gold. Whereas the 8 largest shorts in COMEX silver hold more than 50% of current world production short; in COMEX gold, the 8 largest shorts hold only 16% of world gold production short. In terms of above ground bullion inventories, the comparisons are shocking. The 8 largest COMEX silver shorts hold the equivalent of 30% of world silver bullion inventories (1.3 billion oz) short; while the 8 big shorts in COMEX gold (most likely the same parties) hold less than one-half of one percent of world gold bullion inventories short (16 million oz short vs 3.5 billion oz of gold bullion).

I'm not saying that gold prices aren't manipulated by the biggest traders on the COMEX, because they are; what I am saying is that the degree of concentration in silver is off the charts. That's the meaning of the days to production graph that shows silver's concentrated short position towering over every other commodity.

As to what happens eventually, I believe there is much to learn from the Oprah Winfrey episode in Weight Watchers International stock's 300% two-day short covering rally. If it wasn't for the failure of the CFTC and the CME in deliberately ignoring the unprecedented concentration on the short side of COMEX silver and the fact that many CFTC regulators seem to ascend to positions with the biggest shorts after their government service is ended, I'm convinced a silver short covering rally of epic proportions would have already occurred. But the reality is that the manipulation by excessive and concentrated short selling on the COMEX lives on. Again, one big difference between silver and the stock of any company is that silver can't possibly go bankrupt and let the short sellers off the hook. The manipulation can and has been extended for longer than I ever imagined, but in the end, too low of a price for a physical industrial commodity must end in a physical shortage. In silver, that is unavoidable at some point.

What is at some point? The short answer is that no one can know. The more complicated answer is not likely when the big commercial shorts are loaded for bear, or when they are maximum short on the COMEX. As I indicated on Saturday, the big crooked commercial shorts are holding record large concentrated short positions in COMEX silver futures. Because silver is so underpriced as to eliminate any legitimate economic justification in being this heavily short, the excessively concentrated short position is manipulative on its face. This is why I can assert that these traders, JPMorgan, the CME (COMEX) and the CFTC are crooks without fear of retribution.

Unfortunately, it also suggests that if the crooks get their way, as is most usually the case, aided and abetted by corrupt regulators, prices will most likely be rigged lower to induce managed money mechanical selling which the commercial crooks will use to buy back recently shorted positions. And should this occur, you can be sure that JPMorgan will, once again, have its cake and eat it too, in buying back paper COMEX short positions at a profit and buying more physical silver and adding to its historic hoard.

What I will predict is that I will, once again, conclude that should we get the sell-off that seems preordained for the reasons I just outlined, it will be the final selloff; because that will be the most logical conclusion. Of course, I could be wrong and prices could advance from here. In any event, it's absolutely nutty to speak of a potential selloff at sub $16 silver; but then again how much nuttier could it be when 8 banks and financial companies hold speculative short positions that amount to more than half the world's annual production of silver or more than 60% of all positions on the world's leading precious metals exchange?

I don't think there has been radical positioning change on the COMEX through yesterday's cutoff from what I speculated about on Saturday as far as what this week's COT report will show. I'm still inclined to expect hefty increases in the total net short commercial position in gold of 30,000 contracts and say, 5000 or more in silver.

Ted Butler

October 21, 2015

Silver – \$15.70   (50 day moving average – \$15.10)

Gold – \$1167   (50 day moving average – \$1135)