

## Simply Coincidental?

Twenty seven years ago, on what came to be known as Black Monday Oct 19, 1987, the Dow Jones Industrial Average fell 508 points, or almost 23%. If the DJIA fell that much in percentage terms today, the point decline would come to more than 3700 points, or double the closing level of the market on that dreadful day in 1987. What makes that day so prominent in my mind is that I lived through it in real time. Moreover, I had feared and even anticipated the market plunge and I was far from alone.

Back then, the market appeared ripe for a cataclysmic plunge for a simple reason – the nutty idea of portfolio insurance. Combine with high speed computer program trading, portfolio insurance was the cockeyed premise that large investors could protect their portfolios by selling massive amounts of stock index futures contracts if the market declined by 10%. Believe it or not, the proponents of portfolio insurance failed to ask the obvious question as to who would buy the massive amounts of contracts they had arranged to be sold. But enough large investors agreed to participate in the nutty program that the answer became clear that horrid day. Needless to say, portfolio insurance, at least in the form it had existed, faded away.

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The one-day stock market plunge was so extreme that it truly seemed like the end of the financial world at the time. Damage to the real economy seemed inevitable. As frightening as the plunge was in real time, no such actual economic damage followed and the stock market recovered in fairly short order. In hindsight, this was strictly a case, as I've intoned recently, of a large market move occurring in the absence of real fundamentals and instead because of mechanical trading reasons.

The stock market wasn't the only market to experience wild price swings in 1987; as earlier in the year silver suddenly doubled in price in little more than a month, from \$5.50 to more than \$11, before correcting sharply. Silver had been in a downtrend for four years to the point of eruption in the spring of 1987, tracing a pattern that has existed to this day □ long periods of flat to declining prices, followed by sudden and dramatic bursts to the upside. That price pattern is so unique and peculiar to silver that it, alone, is suggestive of an ongoing manipulation.

The reason for silver's price explosion in 1987 was a rush by technical fund and momentum traders to buy COMEX futures contracts and not because of any

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drastic change in actual supply and demand. It would be 20 years before silver exceeded \$11 again, despite world silver inventories declining more than 2 billion oz over that time due to the ongoing structural consumption deficit. One thing for sure is that the world can't deplete silver inventories by a further 2 billion oz since only half that amount exists today.

As it turned out, I had been petitioning the CFTC and the exchanges about alleged manipulation in silver for some time by then and had been expecting such a price blow up before the sudden move up occurred (although I didn't expect the price to remain controlled and depressed for two decades after the jolt to \$11). Once again and with the benefit of hindsight, the jolt upward in April 1987 and the subsequent price stagnation (despite a verified structural deficit) for two decades had little to do with silver's fundamentals and everything to do with trading mechanisms on the COMEX.

Real supply/demand fundamentals always exert influence on price over time, but more and more I'm convinced that the only thing that matters in any time period except the longest is futures market positioning, as was evidenced as far back as 1987. That's the reason I spend so much time devoted to it. Just like the stock market crash and separate silver price explosion in 1987, it was futures contract positioning responsible for both moves.

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The reason for the walk down memory lane today is to segue (again) into the current set up in silver on the COMEX, as well as the set up in gold, copper, platinum and palladium. I don't know if I have ever seen a similar set up. The truth is that back in 1987, the Commitment of Traders Report (COT) was not the prime focus of my interest in silver. I knew that the big banks held concentrated short positions that depressed the price of silver, but not to the extent that I would come to learn. Back then, the report was only published once a month and with an even greater delay from the "as of" date. Most importantly, it did not contain the detailed breakdown in trader categories that it contains today.

But that was then and today it is different - the COT reports of today are a treasure trove of the most important market data available. As much as I abhor the ongoing manipulation, now evident in all five major COMEX/NYMEX metals, it is precisely the data in the COT report that prove the manipulation. Without this data, I suppose precious metals commentary would be exclusively the story telling it is largely already. I'll not dwell on the criminal nature of the CME manipulation today (even though silver is being pressured in price as I write this) and instead try to lay out what the current market structure portends.

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More and more, I spend my days looking at or thinking about what has transpired over the past few months (and years) and what will occur with one category of trader □ the technical funds. These traders are found in the disaggregated (more detailed) COT reports, under the classification of managed money. Not all the traders in the managed money category are technical funds, but those that are technical funds are pretty easy to identify. These are the traders which, almost without exception, always buy when prices rise and sell when prices fall. (I'm going to skip how this influences price artificially today).

A remarkable circumstance has evolved over these past few months in all five COMEX/NYMEX metals wherein the technical funds have been extraordinarily large net sellers in all five metals (plus crude oil). Since this has come at the same time when there has been a pronounced sell-off in all five metals, including the setting of multi-years price lows, it is hard not to see the connection between technical fund selling (both long liquidation and new short selling) and the collective price swoon. Hard, that is, if one intentionally looks away from the data. And it's not just that traders in the managed money category have sold and sold short in all five metals over the past few months in massive quantities; those quantities have represented nearly all (or 80% or more) of the net contracts sold by traders in all categories combined in every metal. Since I feel that this is so unusual and important, I want to make sure I am presenting it clearly.

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Technical fund traders in COMEX gold, silver and copper, as well as technical fund traders in NYMEX platinum and palladium (and oil) have, effectively, been such large sellers that their selling has constituted 80% or more of all the selling over the past three months or so. I want to say that no small group of traders has ever dominated markets like the technical funds have dominated silver, gold, copper, platinum and palladium recently, but I started this article out by referencing how a handful of nutty portfolio insurers crashed the stock market on one day in 1987 and another small group (technical funds, to boot) caused silver to double suddenly that same year. All while the regulators slept in.

For the sake of time and space, allow me to highlight what I am talking about using silver as an example, but if you would like details on the other markets, please write to me. Since the price highs (\$21.50) of mid-July thru the current COT report, commercial traders, as a group, have purchased 42,400 net silver contracts on the COMEX or the equivalent of 212 million oz. (This is the headline COT number). The technical funds have sold approximately 50,000 net contracts (long liquidation, but mostly new short selling) in that time (250 million oz) or more than 100% of what the commercial bought (other traders account for the difference). My point is that the technical funds did all the selling, in silver and about the same in the other metals. How could this not be, forget being the prime influence, the sole price influence?

The difference in market structure from July until today is the only difference that matters in all five metals. There have been no demonstrable changes in actual supply and demand in any of these metals (except, perhaps, to the bullish side of the equation). The only documented change is in market structure on the COMEX/NYMEX. I don't doubt that China, Russia and India have bought important quantities of gold and silver over the past two years, but that buying has not caused the price of each to increase. The only possible explanation for price behavior for the last few months and years comes from COMEX/NYMEX positioning, as documented in the COT report.

On the way down in price, therefore, technical fund selling is bad (for existing investors). But there is a flip side to this, akin to a prime holding of the law of physics that there is a reaction for every action. Once the technical funds finish selling, the tide turns and it is virtually guaranteed that they will then buy. Then technical fund buying (whether recognized or not) becomes good news because it sends prices higher. The trick, of course, is to determine when the tide changes. The trick with that trick, of course, is that it is virtually impossible to predict precisely in advance, but painfully obvious after the fact.

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But considering how extreme and advanced and unusual the technical fund selling has been in all five metals, it is certainly too late to worry about additional massive selling. This is clearly the time to consider the flip side of the certain massive technical fund buying ahead, even if one misses the tidal shift by a day or a week or a month. It is and has been time to contemplate the upside of technical fund buying. And given the collective nature of the price takedown, it seems most reasonable to me to expect a collective move up in all five metals. Let me make a prediction □ if, as and when all five metals jump to the upside, just about every public report you read will proclaim the reasons for the jump away from technical fund buying.

So, if you □know□ something is about to happen (the coming technical fund buying), but also know that it is impossible to predict in advance precisely when that something will occur, how do you handle it? In the case of silver, to me the answer is to hold as much fully-owned metal as possible and, if it's suitable, juice it up with call options. Then, wait for the passage of time and repeat as necessary. There is a saying I've read recently about how long-expected events play out in that they take much longer than expected to begin but once they do they then play out much faster and go much further than expected. I think that will be the case in all five metals, but especially in silver. In hindsight, that saying described perfectly my feelings before both the stock market crash and separate silver jump in 1987. And, I (have) bet on having those feelings in the

future.

I don't deny that it has taken longer to this point than what I would have preferred or that when silver does turn up decisively, the crooks at JPMorgan and the other collusive COMEX commercials may once again cap the price with aggressive selling. But, then again, they might not and, in that case, silver will not look back and many will be astounded by the manner in which silver rises.

Based strictly on price action and as I indicated in the weekly review, most likely there has been further technical fund buying and commercial selling in COMEX gold futures in the reporting week ended yesterday. I would guess at least 15,000 additional technical fund contracts were bought net in gold and perhaps more than 20,000 contracts. I don't sense much technical fund buying in silver, copper, palladium and platinum in the COT report to be issued this Friday, but if there was any technical fund buying in silver, it was flushed out in today's rotten silver price performance.

Gold appears to be the only metal experiencing technical fund buying to date and that still raises the possibility of the commercials rigging gold prices lower

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temporarily to lure the technical funds who bought back to the sell side. In that case, silver may come under pressure, but it's hard to see how many technical funds can be maneuvered to sell, seeing as managed money shorts are already at an all-time record high.

But that's not to say that the COMEX gold market structure is negative overall. Even if 35,000 contracts of technical fund contracts were purchased over the past two reporting weeks that still leaves 65,000 more technical fund contracts to be bought to take us to the market structure of August 12. The price of gold has risen to the point where technical fund open profits have evaporated and the commercials could easily allow it to rise further and ring the cash register for realized profits for them and realized losses for the technical funds.

I do believe that gold prices will influence silver prices for a while longer, but that game is coming to an end. Silver could easily erupt from here, but could also experience a "stutter step" where that eruption is delayed, particularly if the COMEX commercials crooks rig gold lower. But it's no coincidence that all five COMEX/NYMEX metals are configured like they are; just like it was no coincidence 27 years ago that silver soared and stocks crashed.

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The problem is that while short term prices are near impossible to predict in a free market, in a market controlled by JPMorgan and other crooked commercials it becomes a matter of guessing what these crooks intend. No one can do that. Instead, do what you can that also make sense □ load up on silver.

Ted Butler

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Silver - \$17.20

Gold - \$1245