October 24, 2018 – Fear and Greed/Mysterious Movement

Fear and Greed

Markets become extremely overvalued or undervalued due to the combination of either fear or greed and the passage of time. To be clear, Iâ??m referring to collective fear and greed, the kind embraced by great numbers of people as a whole; people that generally are not particularly fearful or greedy on an individual basis. Further, there is an overlap between fear and greed, as the fear of missing out is just another form of greed. This very much in keeping with Mackayâ??s madness of crowds premise of nearly 200 years ago.

Historically, markets become extremely under or overvalued as a result otherwise intelligent individual investment decisions being embraced too strongly on a collective basis over a long period of time. I see strong evidence of both extreme market undervaluation and overvaluation presently. Please understand that none of this is intended as general or specific investment advice; Iâ??m just sharing some thoughts I feel you might find useful.

Since the great financial crisis of a decade ago, some seismic shifts have occurred that few would have contemplated in advance. As a result of the lowest interest rates in generations, effectively zero percent until quite recently, investors have had to adjust accordingly, forgoing interest rate vehicles they had grown accustomed to and seeking out other means to generate income and capital appreciation. The other means most embraced were the stock and real estate markets and those markets turned in impressive results, surging to all-time highs. Investors did very well indeed in both stocks and real estate and the appreciation experienced over a very long time further solidified the collective decision to go â??all-inâ?•. After all, nothing succeeds like success.

The problem is that success that lasts for too long leads to excess. Investors adjust to the existing conditions more over time, until the adjustment is complete. Near zero percent interest rates for seven years is a long time and perhaps sufficient time for everyone to adjust their investment portfolios away from interest bearing instruments to stocks and real estate, as well as encouraging maximum borrowing at the same cheap rates. At some point, everyone who can position to the existing conditions does position. Then what? Or as Pogo, the comic strip character, intoned, â??we have met the enemy and it is usâ?•. There are growing signs that the switch to stocks and real estate is near completion.

Additionally, there are some unique characteristics about the collective positioning in stocks over the past near decade that stand out. Along with the strong collective embrace of stocks being the place to be for the long term, fortified by the longest bull market on record, there has arisen the unprecedented phenomenon of passive investment in the form of index funds and ETFs (Exchange Traded Funds). These vehicles provide for extremely low cost means of gaining exposure to stocks on both a diversified and more concentrated basis. More money has flowed into such funds, many hundreds of billions of dollars, than from any other source.

One big potential problem is that these index funds and ETFs are a two-edge sword â?? easy to get into and out from. We have yet to see how investors in these funds will behave on a serious break in the market. If they behave as investors have collectively behaved in past market panics, it promises to greatly exacerbate any market decline. Add in the always problematic High Frequency Trading that can accentuate any market decline at any time and the potential for a severe market crash exists like never before. Any market that has appreciated to record levels over the longest period ever without a serious downward adjustment for years could be overdue for such an adjustment. Adding to the mix potential sudden index fund and ETF liquidation and HFT computers gone wild is not a comforting thought.

At the same time, there are other markets that seem extremely undervalued, given the same conditions that have created what look to be overvalued stock and real estate markets. The two markets most undervalued seem to be gold and, particularly, silver. Whatâ??s most ironic is that the conditions that led to the overvaluation in stocks and real estate, namely, the prolonged period of near zero percent interest rates, should have propelled gold and silver prices higher as well, all things being equal. Instead, collective investor fear set in for precious metals and not the collective greed that developed in stocks and real estate. After more than seven years of flat to declining prices, itâ??s completely understandable that investors have collectively abandoned precious metals almost to the same extent they have embraced stocks.

However understandable the collective fear of losing money by holding gold and silver has become, it also creates the potential for the opposite resolution. Whereas the extended run to the upside has created the potential for a sudden meltdown of significant proportions in stocks, the extreme undervaluation in gold and silver creates the potential for a significant melt up in price. There is no question in my mind that the real reason gold and silver prices have been so depressed for so long is due to the COMEX paper manipulation I discuss incessantly. Prices going up have caused investors to collectively over embrace stocks and prices going down have caused investors to over avoid gold and silver.

Moreover, the same unique circumstances concerning index funds, ETFs and HFT computer trading that I highlighted for stocks, also exist in silver and gold in an opposite, mirror image manner. Where the risk in stocks is a sudden attempted exit by investors setting off a chain reaction of index fund and ETF selling; the risk in silver and gold is the sudden attempt by investors to collectively buy silver and gold ETFs. After seven years of nothing but dismal silver and gold price performance the risk of sudden collective selling is remote.

Instead, the risk is to the upside due to the requirement that all new net shares purchased must result in immediate deposits of actual metal. That presents a particularly significant problem in silver because buying of ETFs could set off a chain reaction panic for physical metal, even though the silver ETF share investors are only concerned about the price of their shares, not whether real metal is acquired. One thing that applies to both potential stock index and ETF selling and silver and gold ETF buying is that the smartphone hardly existed at the time of the great financial crisis of decade ago. Today, itâ??s hard to find anyone not wired into their investment holdings via these devices. This makes it all the more easily to imagine sudden stock index fund and ETF selling and sudden silver and gold ETF buying. Fear and greed meets the smartphone.

Mysterious Metal Movement

The hit movie from 1996, â??A Time to Killâ?•, based upon the novel by John Grisham, had an all-star cast, including Matthew McConaughey, Samuel Jackson, Sandra Bullock, Kevin Spacey and Donald and Kiefer Sutherland among others. It concerned the rape and beating of a young black girl in the racially-divided rural Deep South, the subsequent killing by her father of the two white rapists and the trial that followed the fatherâ??s killing of the rapists.

The filmâ??s highlight was the moment during the trial when the fatherâ??s lawyer asked the jury to close their eyes and imagine the suffering of the young girl while he described the depravity in lurid detail. Just when the images reached what had to be a climax, the lawyer suddenly shocked everyone by then asking them how they would have felt had the little girl been white. That was the turning point in the trial that ended with the father being found not guilty.

I invoke that scene today to revisit an issue I have written endlessly about since first uncovering it more than seven and a half years ago in April 2011. That was when an unprecedented physical silver movement commenced in the COMEX-approved warehouses which has continued to this day and very recently has accelerated to absolutely astounding levels â?? an average weekly physical movement of more than 9 million ounces over the past five weeks, or more than 475 million ounces on an annualized basis. Thatâ??s fully 60% of total world annual production, basically being physically moved in and out of 6 warehouses in and around the New York City area. To be sure, this is purely physical silver movement and is not to be confused with paper trading.

Over the past seven and a half years, more than 200 million ounces of physical silver has been moved annually in and out of the COMEX warehouse system, as reported in daily COMEX warehouse releases. In total, more than 1.5 billion silver ounces have been so moved over this time, roughly corresponding to the worldâ??s entire total inventory of silver in the form of 1000 oz bars. Iâ??ve recounted this highly unusual physical movement weekly since it began in April 2011, all the while noting that was when silver ran to $50 and then collapsed and how that was when JPMorgan first opened its COMEX silver warehouse and began to accumulate physical silver â?? all while remaining the leading short seller in COMEX silver futures. Starting from zero back then, today JPMorgan holds more than 147 million ounces of silver in its own COMEX warehouse, more than 50% of the total 289 million oz of silver ounces held in the worldâ??s second largest visible depository of silver (the big silver ETF, SLV, holds the most visible silver in the world, some 330 million ounces and not coincidentally, JPMorgan is the custodian for that metal). As I have contended for ten years, JPMorgan is the kingpin of the silver (and gold) market in every way possible.

So what the heck does the frantic and unprecedented physical metal movement in and out of the COMEX silver warehouses have to do with a hit movie from twenty years ago? Just this â?? close your eyes and imagine for a moment that what has been occurring in the COMEX silver warehouses had been happening in gold instead. Iâ??ve heard more cockamamie stories about gold to last a couple of lifetimes; stories about eligible vs. registered COMEX holdings and the ratio to paper open interest, wacky EFP theories about delivery obligations being transferred to London and about pending COMEX delivery defaults prior to every first delivery day for years.

Iâ??m firmly convinced that peopleâ??s heads would explode if what had been happening in silver had been instead occurring in gold. If the same type of physical movement had been occurring in the

COMEX gold warehouses as has occurred in silver over the past nearly eight years, it would dominate the conversation â?? little else would be discussed. And even more would be made of the issue if the frantic movement were occurring solely in gold and not in any other commodity, as has been the case with silver. Please remember, the COMEX silver physical movement is available on a daily basis (for free) and I know it is being viewed by many â?? since total COMEX inventories are referenced regularly.

So why is the frantic COMEX silver warehouse physical turnover not a subject of widespread attention (where it would be impossible to avoid were it gold)? I think it has to do with it being very difficult to explain exactly why it is occurring. There is no question it is occurring (as the thought that it is some type of intentional misreporting is too absurd to contemplate), but there are no easy answers as to why the unprecedented physical silver movement is occurring. Unfortunately, the documented frantic physical silver turnover doesnâ??t come with an explanation manual. We can easily see it is occurring, just not why. Thatâ??s a combination that demands analytical attention.

Aside from it being absurd to conclude that the silver movement is not occurring and being deliberately misreported, itâ??s also absurd to think it is some type of â??make workâ?• project, solely intended to employ truck drivers and warehousemen. For sure, there is a reason for the physical movement, as well as a reason for why it exists only in silver. While I am open to any and every alternative explanation, I canâ??t help but think that the movement is the result of extraordinary physical demand.

COMEX silver is being moved because it is demanded. Further, given the timing for when the movement started (April 2011) and the myriad clues around that date for silver and JPMorgan, I am convinced that the demand prompting the unprecedented turnover is due to demand from JPMorgan. Specifically, I believe JPMorgan, in addition to the 147 million oz it has accumulated in its own COMEX warehouse, has skimmed off hundreds of millions of ounces more, held either in or out of this country.

Unfortunately, I seem to be operating in an echo chamber, as I am aware of hardly any other commentator willing to acknowledge the easily documented COMEX silver turnover, no less attempt to explain it. When it comes to silver and particularly gold, there is never a shortage of explanations for just about everything under the sun. But in the matter of the unprecedented physical metal movement in the COMEX silver warehouses, thereâ??s not even the chirping of crickets. Go figure. Please feel free to inquire of any commentator you have access to and pass along any responses to me.

And this is just but another example of unanswered mysteries surrounding silver. Others include the fact that JPMorgan has never taken a loss when adding new COMEX short positions in silver (or gold) over the past ten years, only profits. And that JPMorgan has remained the largest paper COMEX short while at the same time accumulating massive amounts of physical silver and gold. The mystery, of course, is why the CFTC or JPMorgan wonâ??t even address these concerns. One thing thatâ??s not a mystery is that JPMorgan is positioning itself for a monster move up in price and so should you.

Turning to other developments since the weekly review, price action remained subdued following last weekâ??s Tuesday cutoff through Monday, but jumped on yesterdayâ??s cutoff for the reporting week to be included in Fridayâ??s Commitments of Traders (COT) report. As has been the case recently, the yesterdayâ??s gains seemed more pronounced in gold than in silver.

In fact, yesterday gold jumped to its highest level since July and upwardly penetrated its 100 day moving average for the first time in six months, while silver barely eked out slight new highs from the end of August and was nowhere near to its 100 day moving average (now around $15.24). Silverâ??s rally yesterday didnâ??t take out recent intra-day highs. The relative good news in silverâ??s relative poor price performance is that there was likely less deterioration in silverâ??s market structure than there was in gold, although I imagine further managed money buying and commercial selling in both gold and silver in Fridayâ??s report. As far as how much, certainly less than last week, although thatâ??s not saying much. As far as actual numbers, Iâ??d guess around 15,000 net contracts in gold and 5000 contracts and hopefully less in silver. These are not high conviction estimates.

I admit to disappointment that the commercials didnâ??t hold the technical funds which were short off the hook relatively easy to this point and that JPMorgan appears to have added new shorts, particularly in gold. At the same time, two other encouraging facts have emerged.

One, as long expected, all the open and unrealized profits held by the newly added technical fund shorts (since June 12) in gold have completely disappeared, although some open profits remain in silver. On a combined basis, the entire $950 million open profit that existed at the extreme price lows has been evaporated. More than ever, even if the commercials temporarily rig prices lower and lure more technical fund nitwits to short, those added new shorts will eventually result in no realized profits for the shorts when inevitably bought back. Market mechanics dictate this, kind of like the regularity of the tides.

The other encouraging fact is that even after the short covering of the managed money technical funds to date and expected in Fridayâ??s COT report, the remaining market structure in gold and silver is still remarkably bullish. Step back from the recent price depths and extreme managed money shorting levels that existed over the past couple of months and the COMEX market structure that still exists is among the most bullish in history. Yes, the structure could get more bullish on a very short term basis should the commercials succeed in inducing more technical fund selling, but if that occurs it should not last long before we turn higher.

Like many of you, I find myself asking more than ever – when the heck are silver and gold going to move decisively higher? In terms of an actual timetable, the only answer possible is that I donâ??t know, although I suspect very soon. But in terms of why we havenâ??t moved higher by now, the answer looks quite simple to me. The only reason we havenâ??t taken off before now is because JPMorgan has still been able to accumulate physical metal on the cheap.

In addition to continuing to move into its own COMEX warehouse the silver JPMorgan took delivery of in the September futures, yesterday nearly 3 million ounces were withdrawn from the big silver ETF, SLV. With silver prices steady to higher of late, it would be more expected that the holdings in SLV would remain steady or even increase and quite counterintuitive for there to be such a large withdrawal. The most plausible explanation for the large withdrawal is that someone converted shares to metal, thus avoiding share ownership reporting requirements. No one is more capable of doing this than JPMorgan, since it is the custodian for SLV and responsible for all metal deposits and withdrawals in the trust.

As long as JPMorgan can continue to accumulate metal on the cheap, it doesnâ??t appear to be in a rush to take the restraints off the price. At the same time, it canâ??t be to JPMâ??s advantage that more are becoming aware of what it is up to and that argues for a quicker end to the price manipulation than otherwise. Finally, if we do get a severe break in stock markets, at that point I canâ??t imagine why JPMorgan would seek to prolong the price suppression, especially if such a stock downturn sets off widespread safe haven interest in precious metals.

Ted Butler

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Silver – $14.70Â Â Â Â (200 day ma – $15.94, 50 day ma – $14.50)

Gold – $1233Â Â Â Â Â Â (200 day ma – $1278, 50 day ma – $1206)

Date Created
2018/10/24