October 31, 2012 – Cheating and Lying

Cheating and Lying

If ever there were two traits we'd rather not see in our children, it would be cheating and lying. Then again, these are two qualities we'd prefer didn't exist in anyone else either. I was reminded of this in reading a fascinating account of the Lance Armstrong saga in Monday's NY Times by David Carr, a reporter on media issues. I'm not sure if this link will work without a required registration so I'll also summarize the piece.
http://www.nytimes.com/2012/10/29/business/media/chasing-lance-armstrongs-misdeeds-from-the-sidelines.html?hp

The article describes a story that I was only vaguely familiar with, namely, the extensive level of performance-enhancing doping that had permeated the professional cycling world and the consistent lies denying its existence. I suppose if you're going to cheat, you then must lie about it. Cheating is lying and vice-versa. But the article had much more Â? including a revelation that the scandal broke despite the mainstream media basically missing the whole thing. What caused the story to bubble to the surface was persistent attention by bloggers on the Internet. As Mr. Carr opens the story, sometimes crazy conspiracy stories turn out to be true.

Of course, I can't help but compare the Armstrong doping scandal to the ongoing silver manipulation by JPMorgan. There are some remarkable similarities, as well as some stark differences. Most similar would be the length of each and the fact that the established media hardly covered either as the wrongdoing occurred. In the case of both Armstrong and JPMorgan, the media seemed afraid of the consequences of digging too deep, even though ample evidence should have warranted a deeper analysis. Both Armstrong and JPMorgan were media darlings, not entities one would wish to cross. As should be the case, Carr heaps praise on the Internet bloggers for not retreating in the pursuit of the truth. Certainly, there would be no allegations of a silver manipulation were it not for the blogosphere.

One big difference between the doping scandal and JPMorgan's role in the silver manipulation is that Armstrong and his lawyers reacted aggressively to the allegations of doping. To date, JPMorgan has been virtually silent in the face of allegations of the bank manipulating silver. It is now four full years since I have been fingering JPMorgan as the big silver crook and sending my reports to Jamie Dimon, the bank's CEO. While I am more relieved to have heard nothing back, I'm still surprised that JPM has remained mute. Trying to be objective, considering how widespread has become the Internet acceptance of JPMorgan as being the prime silver manipulator, it is hard to call their silence as being to their advantage.

Another difference is that the allegations against Armstrong needed to be pieced together by personal testimony and cross-reference. This is a painstaking and time-consuming process. In contrast, my allegations of silver manipulation involve the public record, mainly in the form of CFTC publications and correspondence, and can be determined quickly with no long time lag. Either one participant holding 33% of the market share of a major futures market is manipulative or it isn't. The same participant (JPMorgan) being the sole short seller of additional silver contracts for weeks on end is a manipulative act or it isn't. No long and detailed depositions needed.

Following on that, there is a marked difference in the doping scandal in that the racing authorities did seem determined to get to the bottom of the mess. They appear to have followed a process that eventually discovered the truth. In the silver manipulation, the twin regulators, the CFTC and the CME, come across as having no interest in resolving an issue that couldn't be more serious. Instead, the CFTC pretends to investigate and the CME hides behind that. In the doping scandal, only the mainstream media appeared absent; in silver the media, the regulators and the Wall Street Establishment are all missing.

I suppose that doping may be the greatest infraction in the cycle racing world, but there is a world of difference in the significance of that infraction and the price manipulation of a world commodity. The creation of an artificial price for any world commodity sends false supply/demand signals and misleads the producers and consumers everywhere. That's why the laws against price manipulation are the most important market laws of all. There is certainly no lack of rules on the books against manipulation. The problem is that the US regulators won't enforce the rules against manipulation when it comes to silver.

Cheating is one thing when the goal is to win a trophy at the expense of someone else. If caught cheating, the personal disgrace may be great and it sends the wrong message about sportsmanship and honor. But the cheating by JPMorgan in silver is much more damaging to society. By holding an uncompetitive and dominating market share on the short side of COMEX silver, JPMorgan has, effectively, ruined the silver market. No market can be considered free if there is no real competition. Even in a market where monopoly is permitted, like a public utility, there is a strong regulatory safeguard in the form of a public service commission. In silver there is no strong regulator to control JPMorgan's dominance on the short side. That was broadcast loud and clear in the recent doubling of JPMorgan's short silver position.

From late July to the price peak some weeks back, JPMorgan added the equivalent of 100 million COMEX silver oz to short position already excessive at 70 million oz. If a thousand or even a hundred different traders had divided up the 100 million oz of silver sold short, there would be little to complain about, as that's the way a free market should work. But CFTC data clearly indicate that JPMorgan was the sole short seller. That's exactly how a manipulated market works. A reasonable person would have to conclude that without JPMorgan's concentrated short selling, the price would have risen sharply. Over that same time, JPM's market share more than doubled to 33% of the short side. No single entity should ever hold such a dominant position in any active futures market. This is not a concentrated position easily defended and probably explains JPMorgan's silence to date. It is also not a position that can be closed out without some price violence in either direction.

Therefore, the principal danger created by JPMorgan's 33% market share is to price stability. Past market experience indicates that JPMorgan will be attempting to cause prices to collapse so that they may buy back at the lowest silver prices possible. But the problem with a super-concentrated position like this one is that if that price decline can't be rigged, it can blow up in a physical shortage or if determined buyers show up. Widely-held and diverse market holdings are always preferable to concentrated holdings. No amount of continued silence by JPMorgan, the CFTC or the CME will change that maxim.

My main take away from this article on the Armstrong cheating and lying saga is the importance of how it was resolved, namely, due to the Internet and not the mainstream media. That's also what I've always envisioned would happen in the silver manipulation. To see the Internet as being depicted as the force that mattered in the doping scandal is hugely encouraging. Let the regulators continue to remain silent and pretend to see no evil in silver as more and more come to learn the truth. Let the mainstream media pretend that nothing is wrong with a 33% market share. Let JPMorgan behave as if they are above the law. Sooner or later, we'll hit that critical point when all the allegations of a silver manipulation will be seen to have been true all along and the silver cheating and lying will be no more.

Ted Butler

October 31, 2012

Silver – $32.30

Gold – $1720

Date Created
2012/10/31