

The COTs, SLV and the CME<?xml:namespace prefix = o ns  
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Forgive the alphabet soup in the title, but they are connected, as I hope to demonstrate. The news on silver has been good. Certainly, the price performance has been good. The price is at the highest absolute levels in more than a year. The price, relative to gold, has also reached its best levels in more than a year. What this means, in very simple but factual terms, is that anyone who bought silver instead of gold (or sold gold in order to buy silver) at any time during the past year, is better off for having done so. You sure wouldn't reach that opinion based upon media pronouncements.

Rather than gush about silver's \$5 and 40% price gain from the July \$12.50 lows (versus gold's \$110 and 12% gain), let's go right to the one and only potential negative in each □ the COT structure. The Commitment of Traders Report is no doubt at what must be considered bearish historical readings. In fact, gold's COT is the most negative ever, with silver's at the most negative in more than a year. The new COT report will, undoubtedly, show further deterioration. If there is a sharp sell-off in gold and/or silver the one and only reason will be because the commercial shorts rigged the price lower and hoodwinked the technical fund longs into selling. Will that occur? I still don't know.

Yes, there have been numerous recent reports by analysts and commentators pronouncing the impending sell-off in gold and silver, due to the negative COT structure. As a very long-term analyst and commentator on the COTs, I am not particularly surprised at seeing many embrace them as a market tool. I'm sure that my writings have influenced new COT converts. Yet, I remain cautious about assuming that the current negative must result in a sharp sell-off. Could the current COT configuration result in a sharp sell-off, as it always has in the past? Sure. Must it? That, I'm not so sure of. Please allow me to explain.

Just because something has always occurred, doesn't mean it will always be so. We're not talking about the sun rising or the tides changing here. We're talking about a market occurrence based upon past observation. While I don't think anyone studies the COTs closer than I do, it has been a long-held conviction of mine that one day the COTs will not work in silver. Yes, if underlying conditions remain exactly the same, then it is likely that the crooked commercial shorts will prevail against the hapless technical fund longs. So the real question is what could break the strangle hold of the commercial silver shorts and result in them getting overrun amid a price explosion? The consistent answers to that question have always been a physical shortage and/or regulatory intervention. When the long-overdue physical silver shortage hits, it won't matter a whit who may be short; they will be crushed and forced to buy back at any price, pure and simple. Are we close to that point? Could be. At the very least, we are closer than we have ever been.

One of the main reasons I believe we are very close to a physical shortage is due to developments in the big silver ETF, SLV. I get many questions from readers about the SLV, principally concerning its legitimacy and whether it has the physical silver on deposit that it claims. There have been numerous articles on the Internet attacking the SLV and urging readers to avoid or sell the SLV because it is phony and even a tool for the manipulators to dump silver on the market. Many of these articles even quote me as being sympathetic to the anti-SLV sentiment. Let me answer that in a word □ hogwash (I'd use some other words, but I don't want to offend anyone).

I think the SLV is the best thing that ever happened to silver and silver investors. I am its biggest fan. If the SLV hadn't come along when it did, we would have had to live through many years of continued price manipulation. That's because the SLV (and the other ETF-like vehicles) absorbed almost 400 million ounces over the past three and a half years, gobbling up almost all the available silver bullion in the world, including Warren Buffett's. That's silver that has been taken off the market. If that silver had not been absorbed by the publicly owned ETFs, it could have been doled out by the crooked commercial shorts to balance any shortfalls over many years. That is no longer possible. I understand that some folks may be distrustful of the SLV, given the general and mostly deserved distrust of large financial institutions. Certainly, I can't give you any personal guarantee about the SLV. All I can give you is my honest and

sincere analytical opinion that, overall, the SLV is aces to me. Besides, if you have any reservations, the solution is simple □ don't buy it, buy something else silver related. I'll write in more detail in the future about the SLV, but let me get to the issue at hand about pending silver shortage.

I was careful to say that the SLV was aces to me, overall. The only qualification is that I am convinced that the same crooked commercial traders who short manipulatively on the COMEX, also short shares of the SLV from time to time, for the same manipulative purpose. They do this when they don't have the actual silver to deposit in the Trust, as dictated by the prospectus. This is as illegal as a summer day is long. In simple terms, it is a default. I've written about this in the past

[http://www.investmentrarities.com/ted\\_butler\\_comentary/06-16-08.html](http://www.investmentrarities.com/ted_butler_comentary/06-16-08.html)

That article did create quite a controversy, and Barclays Global Investors never did flat out deny my allegations. I have promised myself that since the SLV now has a new owner, the investment firm BlackRock, and the SEC has a new chairman, that I will formally complain about the new illegal short selling in SLV.

For the purposes of this report, however, let me stick to the point. Based upon my analysis, in last few weeks, some 30 million shares of SLV have been illegally sold short and have gone unreported. This equals 30 million ounces of silver owed to the SLV. The only reason the shorting in SLV shares took place

was because the short sellers did not have the silver for deposit and that they had no choice but to sell short the shares instead. This indicates the potential for us being at a critical point in terms of a physical silver shortage. As I said, if there is one thing that could overwhelm the short sellers in COMEX (or SLV) is a physical shortage.

The other thing that could cause the silver shorts to be overrun is regulatory intervention. This intervention is long overdue, as well. I make no apologies for recent optimism concerning the intent of the new chairman of the CFTC, Gary Gensler, in this matter. If and when the time comes to admit that I was wrong, I will do so, but not before. In fact, I believe a new impetus has just been given to Chairman Gensler to do the right thing and set and enforce legitimate position limits in all commodities, including silver. Amazingly, the impetus was neither expected nor intended.

Yesterday, the CME Group, Inc., the world's largest derivatives exchange and owner of the COMEX, issued a "white paper" on its observations and recommendations in the matter of proposed position limits and the enforcement of those limits. You can read the white paper here -

<http://www.cmegroup.com/company/files/PositionLimitsWhitePaper.pdf>

While I urge you to read the entire report, please allow me to give you my take

on it. I don't think I've read a more obnoxious, self-serving or arrogant presentation in my life. Not only was it devoid of substance, it was presented in a manner seemingly designed to infuriate. It was nothing less than a deep and personal insult to Chairman Gensler. The report, in effect, told the CFTC to get lost and that the CME knew best about everything under the sun. I found myself getting angry and insulted even though I knew it wasn't intended for me. I can only imagine how Chairman Gensler felt.

The good news, if I'm not completely off the mark, is that the CME, led by its snotty and condescending CEO, Craig Donohue, has made a significant blunder. I watched him during the recent public hearings and had the same impression then, namely, that he was insulting and demeaning towards Chairman Gensler. I think this was a big mistake on the part of the CME. This is the wrong approach to take with your primary regulator if you are trying to win the Commission over. It is the right approach if you are looking to get your head bashed in on this matter. I think the CME is going to get its head bashed in. If I were a CME shareholder, this white paper and the recent public hearings would make me question my CEO and the direction he was taking the organization. For me, and all silver investors, this white paper is great news. It makes me question if the exchange, and by extension, the big silver shorts know what the heck they are doing.

That's the real bottom line here. I know the shorts are corrupt and powerful. I

know the technical fund longs have been easy to deceive. I know the COT structure is negative. I know what usually happens in previous set ups. And I know that it may happen again. But I also know that if a physical silver shortage is at hand, the shorts don't have a prayer. I know that a regulated entity should not be arrogant and insulting to its regulator. I know how to judge a man by his word, and how Chairman Gensler's words have been unusually clear. I know I have sent him just about everything I have written on this matter and how if these commercial crooks take this market down again, that he was warned that the bank was going to be robbed at a precise time and place.

For silver investors, the advice is clear. Maintain a meaningful long exposure in metal, shares and ETFs. Be prepared for a sell-off, financially and emotionally. Be just as prepared for a price explosion. Don't let anyone tell you they know how it will be resolved in the short term, but know it will be resolved.