

September 10, 2014 - The Technical Funds

The Technical Funds

Given my emphasis on COMEX market structure changes and their impact on price, here are some questions that appear to be on many readers' minds (unedited) □

Dear Ted,

As an avid reader of your commentary, I'm curious about the people who manage the technical funds and those who invest money with them.

Apparently, they always lose money as a result of the clever tactics employed by the commercials. Why do they continue pursuing investments that always result in a loss to them? The manipulation and their losing ways have gone on for years. Where do they get the money to keep investing and losing?

Have you ever considered sending the managers of the technical funds a copy of your newsletter (like you send to the managers of the commercials) in the hope they'll cease and desist from helping out the commercials?

In addition, in view of the fact that the CFTC does not do its regulatory job, have you ever considered approaching the Justice Department with the goal of interesting them in prosecuting the Comex, JP Morgan and the rest of their ilk?

I look forward to hearing your thoughts.

Jack

Let me take a few moments to provide some background before answering Jack's questions. The technical funds are an integral component to silver (and other commodity) pricing and to the manipulation itself, so these are great questions. Let me first define technical funds as being registered (with the CFTC) as Commodity Trading Advisers (CTAs). These are professional money managers which trade futures contracts in a wide variety of markets on behalf of an even wider number of investors, ranging from individuals to financial entities of all types. The markets traded range from stocks, bonds, currencies and commodities of all types. It is thought that the total assets under management for CTAs runs to the hundreds of billions of dollars. A prominent example of a CTA would be Winton Capital with total assets under management (AUM) of \$25 billion. <https://www.wintoncapital.com/>

Most CTAs trade with great portfolio diversification and stringent money management guidelines; never taking extremely over-weighted positions in any one market. COMEX metals (silver, gold and copper) are just some of the markets the CTAs trade in and usually represent a small fraction of total AUM. There is no requirement that CTAs trade the market on a technical basis (based upon price change), but in a practical sense most do, given that it is much easier to trade and follow many markets on a technical basis than by individually researching each market on a supply/demand fundamental or value basis. Also, it's much easier to assign risk and trading parameters on a technical basis.

Like most other things nowadays, computerization lies behind the growth of the CTAs which trade futures markets, in that it brought the economies of scale to the industry. Without computing power, there would be little practical means of trading and keeping track of millions of transactions, to say nothing of meeting regulatory reporting requirements and the administration of hundreds of billions of dollars of investor capital. Because the technical approach (buying and selling on price change alone) has come to dominate the world of CTAs, I've come to refer to them as the technical funds.

As I have previously disclosed, some 35 years ago, I derived a large part of my brokerage income from soliciting clients to trade with a number of registered CTAs and I'm not writing from any negative perspective based upon my actual experience. While I'm much more attracted to fundamental analysis than the technical approach, the concept of approaching the futures markets from a mechanical and technical trading basis is not without appeal, particularly in the hands of a competent advisor, well-versed in money management and risk disciplines. Now, to Jack's questions.

Because silver (or gold or copper) makes up such a small part of the average technical fund's total portfolio, persistent and continued losses in some markets would be tolerated for an extended time if cumulative gains in other markets were sufficient enough to generate an overall profit to the fund. There would be adjustments along the way to be sure, but because a principle belief in the technical fund approach is diversification, any market wouldn't be automatically jettisoned immediately in the event of a string of losses. What really determines technical fund performance is whether markets are trending or choppy. All technical funds seek to cut losses short and let profits run as the foundation of their approach and expect that they will have more losses than gains, but that the gains (because they will be much larger on a comparative basis) will overcome all losses and produce a net profit. If enough other markets are

trending (stocks, bonds, currencies, meats), that might overcome losses elsewhere (gold, silver, copper).

Plus, while silver, gold and copper have whipsawed the technical funds on the COMEX this year, last year quite a few technical funds made money in these markets on the historic drop in price in gold and silver. So, in response to Jack's questions, the technical funds don't always lose money in gold, silver and copper. More to the point, however, is that the technical funds don't look at it like I do. They wouldn't accept the idea that any market could be manipulated or that they were the victims because that would invalidate their approach and cause them to close their trading in those markets. Or, in other words, to close down their businesses.

I have tried to alert the technical funds in the past that they are being conned, but not recently. But if anyone wants to send them anything I've written, you have my permission to please have at it. Also, I have made previous complaints to the Department of Justice on several past occasions, but nothing has ever come of it. I've never had the courtesy of the DOJ ever really responding to my pointed allegations of criminality on the part of the CFTC, the CME, or JPMorgan, but that's par for the course.

While fine on an individual basis, the real problem with the technical funds in COMEX silver is the impact of their collective activity on price. No one technical fund will usually have much impact on price, but put many technical funds together and there's a much different story. Alone, technical funds are fine; together, not so much. Since the CTAs now manage hundreds of billions of dollars of investor funds collectively, that translates into the tens of thousands

of silver contracts changing hands that I write about regularly in this space. Because of computerization and the phenomenal growth in assets under management, the technical funds have grown too large for some of the markets they deal in, most specifically COMEX silver. What's too large? Too large is when purely speculative traders crowd out the legitimate hedgers for which the futures market were created.

Some may claim that each technical fund is a separate trading entity and it would be wrong to lump them together. But here's the rejoinder □ they may be separate entities, but they trade as one. While each technical fund has its own trading program and suite of computers and software; determining when the price may penetrate a moving average is not a highly complicated calculation. It doesn't matter what computer you may be using, the computation is simple. And because the technical funds always buy on rising prices and always sell on falling prices, invariably all technical funds, in essence, trade as one cohesive entity.

This is why the futures market has come to be the tail that wags the real market dog. The futures market has become too big because the technical funds have grown so large that their collective trading has come to overwhelm the market, particularly in the case of COMEX silver. Another negative consequence of the size and trading uniformity of the technical funds, is that their collective activity is what enables the CME and COMEX commercial crooks, led by JPMorgan, to prey on the technical funds and manipulate the price of silver (and other commodities).

Sadly, I shouldn't have to be the one to point this out, since there are regulators

in place and a body of law expressly created to address this very issue of manipulation. In fact, I rely on the data from the CME and the CFTC (in the form of reports on trading positions) to demonstrate and prove the ongoing manipulation in silver. Yet, there is never a peep from these crooks, even though I send them all my articles (including this one).

Saddest of all is that there is an incredibly simple solution to end the technical funds being too large for the COMEX silver market that will also end the collusive commercials' manipulative grip on the technical funds. Since the technical funds are, effectively, trading as a single entity (because they use the same methodology), they should be regulated as a single entity. Specifically, speculative position limits should be applied to technical funds, not just on an individual basis, but on a collective basis.

In the past, the issue of position limits were championed by me to restrict the concentrated short selling by JPMorgan and other commercials on the COMEX. Despite the pitiful failure of the CFTC to enact legitimate position limits as required by law, here's an even simpler application of position limits even more in keeping with the intent of commodity law. If silver position limits of 5000 contracts (still too high in my mind) were instituted as proposed by CFTC staff, that position limit should apply to technical funds collectively, not individually. Since they are trading collectively, position limits should be applied collectively.

That would make it impossible for the technical funds to hold collective positions of 30 or 40 or 50 thousand contract silver positions long or short, distorting prices higher or lower. More importantly, if the technical funds were so restricted by a collective position limit, it would destroy the incentive and

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motivation of the collusive commercials to game the technical funds. That, my friends, would end the silver manipulation in a heartbeat.

I admit that I don't have any simple solutions for growing economic inequality, or the Ukraine, or ISIS; but I do have a very simple solution to the silver manipulation (aside from jail time) □ enact legitimate position limits, certainly on the big concentrated shorts, but also on the technical funds collectively. And I welcome any feedback suggesting that what I propose is unfair or impractical in any way. The world won't end if the technical funds are restricted, as they should be, but the silver manipulation will certainly end.

A few words on market activity since the weekly review. I had remarked that I saw the light at the end of the tunnel (no, not of an oncoming train) in terms of the price decline over the past two months, due to my perception that technical fund short selling was drawing to an end in COMEX silver and gold. I concluded that, as a result, I would be topping off long term positions (SLV) and purchasing call options, although I did expect a continuation of the new price lows for a short while as the commercials lured more technical fund shorts into their lair. Since we got the new lows as I hoped, I topped off and bought the calls.

Since the silver and gold price salami was sliced to the downside during virtually every day of the reporting week ended yesterday (and continuing today), there should be significant further increases in the managed money gross short positions in silver and gold (and perhaps in copper, given yesterday's big chunk to the downside). I would think the changes in Friday's COT report will parallel the last report in significance. This will, undoubtedly, put us closer to the ultimate extreme in technical fund short selling. I would define a bottom in price

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for silver and gold as the point of maximum technical fund short selling.

Let me overuse my salami slicing analogy. The slicing must cease once all the salami is cut; otherwise a hand gets sliced. That's how I view the price slicing in silver and gold, with the only difference being once the technical funds are maximum short, the slicing must stop or a hand will get sliced. The collusive commercials are slicing the technical funds (collectively) and once the commercials succeed in drawing in the maximum number of technical fund shorts, any further lower prices will benefit the technical funds and hurt the commercials who just bought heavily. Since I'm convinced that the collusive commercials are leading the technical funds by the nose into and out from positions (and not the other way around), the price will stop going down and start going up when it is in the best interest of the commercials. Prices will only continue to fall if the commercials can buy more. Otherwise, the commercials will slice their own hands.

What it comes down to in picking a bottom for me is calculating the point of maximum technical fund short sales. Based upon previous record extremes in technical fund short sales and the extent of current salami price slicing, it appears to me that we are close enough to expect the bottom may be here. Otherwise, I wouldn't have topped off and bought calls. That's not a guarantee that my expectations will prove to be accurate, but I hope I have been clear in suggesting why I think the price decline is over or nearly over.

Looking ahead, given the extremely bullish COT set up at hand, it is not unreasonable to contemplate the nature of the next rally, even as the last few price slices to the downside are observed. Specifically, will the collusive

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commercials rush to aggressively sell to the technical funds who will, most assuredly, be buying aggressively as and when prices climb above the moving averages. You don't need an IBM 360 to figure out that the technical funds will buy on higher prices, just what will be the commercials' reaction.

Many would contend that the reasonable bet would be that, of course, the commercials will sell as much as necessary to cap prices on the next rally because that has almost always been the case. While I can't argue that might occur yet again, I can argue that commercial price capping will end someday and with it the silver manipulation itself. That day is unknown to me but its coming certainty is why I hold silver (and buy call options).

Ted Butler

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