

September 2, 2020 - What Was Right, Wrong and To Be
Determined

A rational life is usually marked by continuous reflection; learning from one's mistakes and not discounting the role of luck in one's successes. With that template in mind, allow me to self-reflect on my now 35 year journey in silver. Let me start with what I got wrong.

Hands down, my biggest error was in underestimating the time it would take for the manipulation to end. And to be fair, the manipulation has not yet officially ended, although the signs are better than ever that we are on the doorstep of the end. When I first discovered, in 1985, that the reason silver prices were so depressed, namely, concentrated short selling by big banks on the COMEX, I truly believed that by simply explaining the mechanics of the manipulation to the proper authorities, the regulators would quickly remedy the situation. In hindsight, my naivety was a serious mistake.

Compounding that basic error was my mistaken belief that the regulators, both on a federal and on an industry self-regulatory basis were out to do the right thing in terms of the greater public good. I failed to recognize that existing organizations are not interested in having outsiders tell them what they may be doing wrong, particularly if a proposed change is detrimental to how things are done. You know (I didn't) how hard it is to convince a man of something that is in conflict with his own self-interest.

I even compounded this basic error when I allowed myself to believe a great regulatory change was at hand when Gary Gensler was appointed chairman of the CFTC in 2009 and he attempted to institute legitimate speculative position limits. I knew Gensler was interested in position limits in energy, not silver, but you couldn't institute position limits in energy while leaving silver out. Instead, no position limits

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of any kind were instituted, to this day. As it turned out, the only chance I see for legitimate position limits in silver now, will be after the manipulation has ended, in typical government over-reaction after the fact.

I don't think an apology is in order (except perhaps to my wife and family), but I deeply regret having misjudged the time it would take to end the silver manipulation. Maybe I'm being too kind to myself in judging my biggest and perhaps sole serious mistake was in underestimating how long it would take and the reticence of those in position to do something about the manipulation, but any other errors don't seem to amount to much in my mind - but feel free to remind me of what I may have missed.

Since I'm covering mistakes, I'm mindful that I always took the other side of the "full pants down" debate I had with my departed friend and silver mentor, Izzy Friedman, about whether the big shorts would take it on the chin when silver started rising for keeps, as opposed to my view that the big shorts had to know what they were doing and would let prices rip when they were least short. After all, we always got a rally after the big commercial shorts reduced their short positions to a minimum, convincing me they knew what they were doing.

The degree to which the managed money traders got net short in silver and gold around April/May 2019, meaning that the big commercial shorts had one of their lowest net short positions ever, set the stage for a certain rally. We did get that expected rally, but after a measly \$2 in silver and \$100 to \$150 in gold, the commercials sold roughly 100,000 net silver and 250,000 net gold contracts, putting them back into "full pants down territory". The big commercials had the perfect opportunity to let prices rip to the upside when they were minimally short, but failed to do so. So, obviously, Izzy's premise was much more correct than mine. How smart

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could these big commercials have been if they squandered an opportunity to let prices run free with minimal damage and are now looking at losses in the \$15 billion+ range when they could have walked away with virtually no losses?

Obviously, JPMorgan's emergence in becoming the biggest long on a physical basis and removing itself from the short side changed the dynamics of how the manipulation would end; something, sadly, that Izzy never came to appreciate. JPMorgan double crossing of its former shorting partners in crime was something I saw early on, even before it removed itself from the paper short side. The only thing I would change in this older article was that there would be 8 (or more) dead men walking when silver (and gold) took off, and it wasn't necessary for me to remove JPM from the list as I did in the article, as it came to remove itself.

<https://silverseek.com/article/dead-men-walking>

The good news was that when the move higher started in earnest in June 2019, I quickly recognized that the move up was very different from the garden variety repetitive up moves of the past, when it was just a matter of time before the big commercials shorts would hoodwink the managed money traders into selling on plunging prices. I started calculating the financial hole the 8 big shorts were digging themselves into, being careful to exempt JPMorgan from my calculations. It wasn't long before JPM made my calculations real easy by removing itself from the short side. And yes, it's true that silver would go on to suffer a tremendous selloff into March of this year, but that move was so rigged and destined to be short-lived that even Ray Charles could have seen it. And no one benefitted more from the selloff than JPM.

I'm not going to cite everything I believe I got correct, as the fact is that I never

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“borrowed” or plagiarized anything ever without proper acknowledgement and anyone writing that silver has been manipulated got it from me and not vice versa. As far as those who still maintain that silver hasn’t been manipulated in price, nothing will ever change their minds. Not Justice Department and CFTC findings or any number of deferred criminal prosecutions. Besides, a picture’s worth a thousand words and I would ask you to peruse the following chart which appeared on Jesse’s Café Americain the other day. It depicts the year to date performance (through August 30) of stocks, gold and silver.

<https://jessescrossroadscafe.blogspot.com/2020/08/year-to-date-performance-of-silver.html>

What I would point out is that after all these markets were fairly flat until the end of February, on the dramatic plunge in prices into mid-March, silver fell the most of all – in fact, falling to ten year lows and the lowest it had been relative to gold in recorded history (thousands of years). Then, on the subsequent rally through the end of August, silver rallied more than any other market depicted and to seven year highs and three year highs relative to gold. And if there was any real fundamental news accounting for silver’s extreme selloff and rally, then I missed that news (even though that is what I do for a living).

What kind of market could go from worst to first in such a short time frame on no news? The kind of market where prices are artificially set, in other words, a manipulated market. There is no market more manipulated than silver. Therefore, it stands to reason that when the manipulation ends, the reaction the other way will be commensurate with the decades of price suppression. While the final reaction up might get quite volatile, it appears inevitable. The only questions are how high and

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how fast the final rally will be? The answer to both questions, it seems to me, is “very”.

Of course, much in the silver story remains to be seen. Then again, much has already been seen, not the least of which has been the recent move in a matter of months from price lows not seen in a decade to multi-year highs - something that has never occurred in any other market. All things considered, we are at the most exciting point for silver in all the years I have followed it. It's as if forces of every type imaginable have suddenly converged in unison.

At the core of this confluence of forces is silver's incredibly unique dual demand profile as a basic investment asset and an indispensable industrial commodity. No other commodity, not gold, not copper, not oil, and not even platinum or palladium, has the same real dual demand profile of silver. Either demand, on its own, is capable of lifting prices to the heavens - but when combined, the potential price impact is truly hard to fully comprehend. And to add even more fuel to a potential price fire that needs no additional fuel, silver's dual demand of investment and industrial consumption are tied together by a highly specific form of silver - metal in industry standard 1000 oz bars. It is the silver in this form that unites investment demand, from every silver ETF (exchange traded fund) and COMEX futures trading and warehouse holdings, and industrial demand and potential inventory stockpiling. No, I am not knocking or discouraging silver investment in coins or small bars; I'm just saying that silver prices will be determined by demand for metal in 1000 oz bar form.

On the previous runs to \$50, both in 1980 and 2011, it was investment demand that drove silver prices, not industrial user inventory buying. In fact, industrial user

demand as a silver price driver has yet to occur. But such industrial buying demand appears inevitable, not only because modern industrial silver users appear more tuned-in to world realities, but because investment demand appears set to soar, forcing the users' hands.

Once silver investment demand sets in and takes sufficient hold, the users will be faced with delivery delays, forcing some users to build inventories to avoid production shutdowns due to a lack of silver. This will only compound the problem and further delay timely silver deliveries to other users, reinforcing the whole panic buying environment. As previously mentioned, panic buying of a mundane item like toilet paper seemed preposterous until the shelves were bare. And few were faced with the prospect of shutting down a manufacturing facility for lack of toilet paper, not something near as vital as silver.

The real question is on what I'm basing the near-certainty of a coming investment surge in silver (in 1000 oz bar form) that will set off an industrial user buying panic (if some smart users don't set one off first)? There are a number of factors for why I see a coming investment surge in silver. For one thing, general investment surges in silver have occurred previously, starting when the US stopped using silver in common coinage and citizens everywhere started hoarding the old coins containing silver. Moreover, those with foresight that did hoard old coins were rewarded for their foresight. In more recent times, there have been periodic outbreaks of investors rushing to buy silver, in forms ranging from coins and small bars to investment type products like silver ETFs. Currently, not only are there large premiums for retail products, like Silver Eagles, indicating strong retail investment demand, the holdings in world silver ETFs are at record levels. Rarely have we seen such retail and wholesale investment buying converge.

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And thanks to the Internet, word has spread about the workings of the big COMEX commercial shorts and JPMorgan in the setting of the price of silver. While I get upset with the level of plagiarism, at the same time I am gratified more are spreading the “silver story” and as more take an interest in learning more, silver investment demand is bound to grow. As more eyes focus on the specifics of the allegations that the regulators and JPMorgan refuse to acknowledge, I believe more will come to buy silver.

Now that the regulators are, sort of, cracking down on the big shorts, like Scotiabank and others, the lynchpin behind silver’s low price is being dismantled. More than that, the absolutely horrid financial results experienced by the big shorts over the past year and particularly since the contrived price lows of mid-March would seem to discourage any thought that the old scam of suppressing prices is still viable.

The fact is that few are truly aware of how little silver exists that is available for potential investment (or user inventory buying). All that matters is silver in 1000 oz bar form and in that form no more than 2 to 2.5 billion ounces exist in the world or \$50 to \$60 billion worth. And remember, I’m talking about what exists, not what’s available for sale (which is only a small fraction of what exists).

I don’t believe more than one out of every 10,000 or 100,000 people (investors) in the world know that, in dollar terms, there are hundreds of times more gold in the world than silver in investible form. Most people look at silver’s low price compared to gold and automatically conclude silver must be much more plentiful than gold. Those investors which take the time to investigate the facts objectively will come to not only appreciate how little silver exists for investment purposes compared to gold, but how only silver has potential industrial users in position to compete for what

small amounts of silver exist.

Away from the specifics surrounding silver (as if they weren't enough), there are some macroeconomic factors, which on their own, promise to set off an investment stampede into silver. Near zero interest rates, coupled with an unabated worldwide rush by monetary authorities to create buying power to support economic growth and generate higher rates of inflation have created a virtual buying stampede in the stock market, at least in certain stocks. It's not uncommon to see the valuations of select stocks climb by amounts equal to or greater than what all the silver in the world is worth in extremely short periods of time, often in one or a few days. This is not a phenomenon previously witnessed.

Stock prices can only do one of three things - go up, down or stay the same. I doubt whether prices will remain the same for long, given all the crosscurrents in place, but it seems only a matter of time to me before some stock market money looks for alternative investments - whether stock prices continue to inflate or begin to fall. And considering the paucity of legitimate alternatives, it seems inevitable to me that some stock market money will alight on silver, particularly as and when it makes new highs.

Now that I think about it, any one of the three horsemen - general investment demand, industrial user demand or investment demand seeking refuge from the highly-valued stock market could flood into silver at any time. And it's not hard to imagine two or all three hitting simultaneously - rushing onto an asset that has incredibly limited quantities. Yes, it has taken far too long to get to this point, but the wait appears to be over. More things seem aligned to cause silver to soar than ever existed previously.

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So with all these factors in place promising much higher prices, how can today's sharp selloff be explained? The explanation is the same as for every selloff over the past 35 years - coordinated and collusive price rigging on the COMEX by the biggest shorts (plus JPMorgan, no longer a short). We may be on the threshold of the ending of the silver manipulation, but that manipulation is not yet ended. These big commercial crooks are like Count Dracula - they won't be dead until the wooden stake is pounded into their hearts. The big shorts are close to dead, but not yet there.

Unlike any other asset, certainly stocks and most commodities, even including gold, silver is different in that its price is completely controlled by paper trading on the COMEX. Up until this point, with very rare exceptions, the price of silver is solely set on the COMEX by paper positioning. You really can't say that about any other investment asset. No other market (gold does come close) is as dominated price-wise as silver in terms of derivatives trading. No other investment asset has close to the concentrated short position as exists in COMEX silver.

As long as this concentrated short position exists, the chance of sharp selloffs exists. At the same time, the signs are increasing that the concentrated shorts in silver face headwinds pointing to their control slipping away. While the CFTC will never rule that silver has been suppressed in price for decades, the actions it has taken against Scotiabank and others, including pending findings against JPMorgan, are not amenable for continued suppression through concentrated shorting.

The problem for all is that no one can blink their eyes or click the heels of their ruby slippers and make the concentrated silver short position simply disappear. And to my mind, it is not possible to bring the physical quantities of silver into the COMEX warehouses sufficient to cover the concentrated short position, as seems to have

occurred in gold. It just doesn't seem reasonable that 300 to 350 million physical silver ounces can be added to the COMEX warehouses to equal the feat accomplished in gold over the past several months.

Up until mid-July (little more than a month and a half ago), all the financial damage to the 8 big shorts in COMEX gold and silver came from gold, not silver. That's because until then, gold had risen sharply in price, while silver had not. Yes, silver rose sharply from the mid-March lows to mid-July, but the losses attributed to silver didn't start to mount until after silver rose sharply after mid-July.

And as I just and previously indicated, a case can be made that the losses suffered by the big shorts in gold involved losing physical gold they held that they sold way too soon (\$1300 to \$1400) last summer (2019) and the big recent deposits into the COMEX warehouses reflect that premature selling. But unless the 8 big silver shorts have 300 to 350 million ounces of physical silver in their possession, it seems highly unlikely they can replicate their experience in gold.

Yes, the losses attributed to the big shorts in silver (after today's selloff) "only" amount to around \$3.5 billion of the combined \$15.5 billion total loss in both gold and silver, but until July, there were no net losses on silver. And if the big shorts don't have the physical silver to back those losses (as they may have in gold), the situation is more critical in silver.

This is a rapidly developing circumstance and at the very least, it must be expected that the big shorts may, in fact, be in much greater potential jeopardy in silver than they were in gold (by virtue of not holding the physical, as was at least possible in gold, given how much gold exists in the world). This also explains why the selloffs are usually much sharper in silver than in gold. The good news, of course, is that the

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sharper selloffs provide better entry points for silver, as once the big shorts finally give up the ghost and the physical market delivers the final wooden stake, the selloffs will likely be a thing of the past, at least due to big short manipulation.

As for what to expect in Friday's new COT report, after last week's managed money buying (in silver) on price declines for the first time ever, this week's reporting week rally of as much as \$3 in silver and \$80 in gold, would normally persuade me to expect additional managed money buying in both silver and gold. Then again, the reporting week featured the first notice delivery day in silver and the resultant 21,000 contract reduction in total open interest (2000 contracts in gold) may have factored in the net positioning. In addition, there was undoubtedly spread liquidation in silver, but that shouldn't have mattered much in net positioning.

I sense that if there was deterioration in Friday's report, as I would expect, that whatever managed money buying and commercial selling occurred thru yesterday was largely undone in today's trading. In any event, I am not expecting truly significant changes in Friday's report or enough to alter the remarkable lack of managed money buying and commercial selling that has been the key feature on the pronounced rally since mid-March. It is the lack of managed money buying and commercial selling on the \$400+ rally in gold and \$15+ rally in silver that is the true game changer.

At publication time, the 8 big shorts were able to reduce their overall total losses by around \$700 million from Friday's close, bringing those total losses to just over \$15.4 billion. And as I have maintained, the path for the big shorts to completely eliminate their massive total losses does not appear possible. That doesn't mean the big shorts will roll over and play dead (as today's action indicates), but they are doing a pretty

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good imitation of dead men walking.

In the silver investors need to have some fun too Department, notwithstanding today's sharp selloff, I got a kick out of this new music video by Teddy Swims, as it reminded me of how quickly financial fortunes can change for silver investors. The lyrics are a hoot, including the toast to "temporary well". Let's hope it's not too temporary.

https://www.youtube.com/watch?v=U_vO2OfBnZs

Ted Butler

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Silver - \$27.55 (200 day ma - \$18.41, 50 day ma - \$23.34)

Gold - \$1947 (200 day ma - \$1686, 50 day ma - \$1900)