

## September 28, 2011 – The High Road

### The High Road

Difficult times demand more from us than when times are easy. Nobody knows this more than silver investors. The dramatic takedown in price has inflicted much pain and consternation (and anger). At a minimum, a sudden major markdown in the financial value of silver holdings should prompt serious food for thought. Is silver still a good (or as I would say, the best) long term investment?

Difficult times especially demand more from those who consider themselves silver analysts, as I consider myself. Even though I think of silver constantly, the thoughts become more intense after witnessing a 30% takedown in 2 and half days. After the 30% takedown in the first week of May, I thought such extreme sell-offs were unlikely until we achieved much higher price levels. Certainly, I did not fully anticipate nor predict the extent of this sell-off, although in a manipulated market I knew full well that anything was possible. That's why you must never hold silver on margin.

The best thing about difficult circumstances is that it focuses the mind like nothing else. Tough times force you to reevaluate previously-held premises and plans of action. In looking at this stunning price decline and all the facts associated with it, I find that all my previously held premises appear to have been reaffirmed and the long term investment case for silver has actually been enhanced. Nothing much changed in the real world of actual silver supply and demand over these past few days, as production and consumption of any world commodity can't suddenly change without everyone seeing it. Quite simply, because the fundamentals for silver are intact, the sudden price drop only enhances the investment prospects going forward.

That's not to say that existing silver investors shouldn't feel victimized and angry about what just took place. This was a manipulative takedown pure and simple, perhaps the most blatant in history. The silver crime in progress continues and with it comes the matter of how to approach it. I can understand, more than anyone, the frustration and outrage you must feel that the manipulators (JPMorgan and the CME Group, et al) and the regulators at the CFTC have done nothing to end this ongoing crime. I can also understand if you decide to give up in petitioning the CFTC, particularly since they have been unresponsive to the interests of the public. For me, however, the choice is clear; I'm still going to take the high road and approach this with fact and reason. Don't worry, I'll still be labeling the CME as the criminal enterprise that it is, as well as identifying JPMorgan and the assorted COMEX commercial crooks as the true vermin that they are. Maybe someday I'll snap and take a different course, but not this day.

Let me cover some of the more unusual developments over the past few days away from price, of which you are all undoubtedly aware. First, the CFTC delayed again the public meeting on finalizing the issue of position limits, this time from Oct 4 to a tentative Oct 18. There is no doubt that this is the most contentious issue at the Commission, as the repeated delays attest. The most plausible explanation (here I go again) is that a majority vote of approval could not be had at this point and Chairman Gensler didn't want to showplace how divided the Commission was on this issue. Gensler appears determined to show that there is bipartisan support for this most basic reaffirmation of commodity law. I wish him luck. (By the way, much has been made of the CFTC's press release of September 16, which granted some very temporary reporting relief to swaps dealers. This doesn't look like any big deal to me. It's important to keep things in perspective. The Commission should be drawn and quartered for many reasons related to silver, but this isn't one of them.)

Whether there is a hidden silver connection here, as I believe, or it is just a matter of the CFTC standing up to the CME and JPMorgan, position limits are the critical issue at the heart of Dodd-Frank. Without legitimate position limits, Dodd-Frank is meaningless as far as commodity regulation goes. I know that gutting Dodd-Frank is an open political agenda for many and the issue of position limits is the lightning rod of that agenda. The irony is that the CFTC staff proposal being considered is directly modeled after a CME Group proposal. In other words, the CME is fighting its own proposal. My guess is that all this delay for what should be a simple matter is just the CME and JPMorgan dragging this out to buy enough time to manipulate the markets lower in order to cover as many short positions as possible. I just don't know if Gensler and Commissioner Chilton are aware they are being so used or not. From all indications, the crook's plan is working, based upon the recent data flow, which I'll cover in a moment. In the meantime, a great wrongdoing is continuing to plague the public and our markets.

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I know that in taking the high road, that doesn't guarantee others will as well. Certainly, I know that the CME Group or JPMorgan wouldn't know the high road if it smacked them in the face. But, in truth, I am disappointed most in Gensler and Chilton for not doing what is right because they should know better. Rather than cobble together some washed down proposal that would prove acceptable to the crooks at the CME and JPMorgan, there is something better that Gensler and Chilton could do instead. My advice -be open and honest with the public on silver. It's outrageous that a formal investigation by the Enforcement Division into concentration in the silver market could be unresolved after three years. It's equally outrageous that no one from the agency, but especially Gensler and Chilton, has offered the slightest opportunity of genuine discourse to the many thousands of public comments demanding a position limit of 1500 contracts in silver. Everyone at the agency should be ashamed of themselves for intentionally avoiding an open debate on the matter. Only the big crooks are given open access to the Commission and not the public. This as un-American as it gets and runs contrary to the intent of the First Amendment protection of the public's right to seek redress from the government. The CFTC lets you petition alright; it just ignores the petitions. I suppose the next step might be to ask you to petition the Public Integrity Section of the Justice Department for the CFTC's failure to right such an obvious wrong as what's transpiring in silver. If the Commission has not been corrupt in their failure to address the silver crime in progress, then they should be dismissed for incompetency.

A most unusual recent development has been the large inflow of metal into the big ETF, SLV, over the past few days. The extraordinary high volume sell-off in SLV <sup>should</sup> have resulted in a massive outflow of metal as ordinary investors undoubtedly sold in response to the sudden collapse in price. Instead, deposits surged on a price plunge for the first time ever, if my memory serves. In fact, I had predicted in the weekly review an outflow of 10 million ounces and not the almost 7 million ounces that came in. The most plausible explanation was either big new buyers rushed in to scoop up bargains or (as I suspect) we witnessed a large covering of the massive short position in shares of SLV or some combination of the two. There are two ways to cover a short position in SLV. One involves a straight buyback of shares from sales by existing shareholders which would result in a reduction of the short position and no change in metal deposits. The other alternative is that metal could be deposited and the newly created shares could be offset against the short position. The important point here is that whatever happened, it happened because of the intentional takedown in price that was most assuredly in connection with COMEX short covering and other commercial buying. If the CFTC can't see this, then it is only because they don't want to see it or are incapable of seeing it.

The new and instantly outdated short interest figure was released for positions as of September 15, long before the price carnage of the past few days. The short position in SLV declined by 1.7 million shares (ounces), to just over 23.6 million shares. This decline erases the last two increases and leaves the short position at the lowest level since spring, but still at a manipulatively large 7.1% of total shares outstanding.

<http://www.shortsqueeze.com/?symbol=slv&submit=Short+Quote%99>

It's good that the short position in SLV is going down and, if my hunch is correct, is now significantly lower still as a result of the latest engineered smack down in price. What's bad is the manner in which it was reduced, namely, on a giant manipulative move down. My contention about the short position in SLV is still that it was basically fraudulent and manipulative when it was initiated and it looks like it was equally fraudulent and manipulative when it was closed out. I still think BlackRock, the Trust's sponsor, has been an enabler of the silver manipulation for allowing this short position to exist and I hope and expect that they will be found negligent and liable for the role they played. But don't misread the improved circumstance for silver rising dramatically in price now that the short crooks have bought back a good portion of the short position in SLV, as it eliminates another reason for the price to remain depressed.

In conjunction with the increase in deposits in the SLV and the (expected) further reduction in its short position, there appears to have been a massive clean-out on the COMEX as well. The super high volume and shocking price collapse has resulted in the intentional obliteration of speculative longs in massive amounts. I hope everyone is clear that this clean-out in SLV and on the COMEX is why we experienced this unprecedented 30% 2.5 day smash. There has been an impressive reduction in silver open interest (as well as in gold and copper) on the price smash. And this reduction in total open interest may understate the actual reduction in the total net commercial short position. Because the raptors (the smaller commercials apart from the big 8) in both gold and silver were net long going into the big price decline, that means that, mechanically, any buying by them would not result in a reduction in open interest. It would impact a net change in the total commercial net short position, but not in total gross open interest.

All told, through today, I would estimate that more than 100 million ounces of (mostly paper) silver have been transferred from ordinary long investors and speculators to the commercial crooks that deal on the COMEX and in SLV, including the most recent COT report. And my numbers may prove low. Thus, the deliberate manipulative sell-off was successful beyond belief for the commercial crooks. Again, that's both good news and bad news. Bad news because these crooks got away with it once again. Good news because it leaves the market structure at its best level in years. We await the readings in upcoming COTs for confirmation.

The intended consequence was to forcibly shake as many silver investors and speculators as possible from the market through a manipulated price move lower. This has caused pain and consternation to existing silver holders. That this was intended bestows everlasting shame on the CFTC which stood by and let it happen (again). But there is also an unintended consequence to this deliberate sell-off. You don't suddenly drop the price of a world commodity like silver with no additional impact. The suddenly discounted price has created an incredible bargain to new silver investors. A valuable and vital commodity has been abruptly marked down by a steep discount for illegitimate purposes. It's not true to say that nothing has changed but the price; it's much more than that. The circumstances have improved dramatically for silver as a result of the sharp improvement in market structure as well. Fundamentals the same, market structure radically improved and the price sharply discounted. That's a potent combination.

This impact of the lower price on demand has been seen almost immediately. For example, the new low price completely reversed the trend toward lackluster sales at the US Mint for Silver Eagles. In a matter of days, the sales of Silver Eagles for September went from looking like the slowest month of the year to perhaps the highest when the month is done.

[http://www.usmint.gov/mint\\_programs/american\\_eagles/index.cfm?action=sales&year=2011](http://www.usmint.gov/mint_programs/american_eagles/index.cfm?action=sales&year=2011)

This reaction would be in accord with the immutable law of supply and demand. A lower price encourages demand and discourages supply. I would expect this phenomenon to spread across the physical silver spectrum.

Sharp price falls do immediately result in fear; fear of further price falls. In the case of silver, fear has resulted in massive selling, mainly by those on margin and suddenly confronted with not only massive losses, but also with immediate demands for margin well beyond reasonable expectation. But fear is a relatively short-lived condition, as it is humanly impossible to stay in a prolonged state of market fear. You must adjust to it by selling or mentally adjusting to the new price. Since there is no fundamental reason for silver to decline in price, we await the last liquidation of fearful longs which may have occurred early Monday morning when \$26 was hit in COMEX electronic dealings. Because this has been a deliberate creation of market fear and not of changing fundamentals, there exists the possibility of a sudden and sharp move to the upside, once fear reaches its climax (if not already witnessed).

For that reason, I don't believe this is a time to sell, but a time to buy; perhaps this is one of the best buying opportunities ever. You have to ask yourself Â? why did the commercial crooks rig such a vicious sell-off? The answer is clear Â? so that they could buy every distressed sale they could create. There is no way that any buyer, crooked or otherwise, ever buys anything that he is not convinced will go up in price. This has been the most blatant silver takedown ever in many regards. Automatically, that makes it one of the best buying opportunities. I guess I don't know what to do about a regulator which won't fulfill its most critical mission, other than continue to ask you to press them. But I do know that the commercial crooks rigged this sell-off so that they could buy as much silver as possible. You should do likewise.

Ted Butler

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Silver – \$29.90

Gold – \$1608

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