
September 5, 2018 – As High Or As Low As There Are Numbers

It is at times like these, when an asset you feel is dramatically undervalued moves even lower, hitting multi-year price lows that challenge you most. That's the case in silver. Such times force one to reexamine one's core beliefs. We all do it in our own way and for me that involves tracing my journey back to the very beginning, for which I ask your indulgence before I try to analyze the recent price smash.

For me, the beginning goes back around 45 years, when I was a fresh-faced newly trained broker at Merrill Lynch, transferred (quite reluctantly) from New York to work in the Miami Beach branch office. I had just completed a six-month training program to be a commodity broker and since this was the first commission-based job I ever had and I had a young family to support, one of my main sentiments was the fear of failure. The manager of the branch, Charley Thompson (a great guy from Oklahoma), frequently commented that he hired me because of my strong sales aptitude test score; but the truth was that I took the test by giving the answers I thought would show me to be a good salesman and get me hired. This added to my anxiety about failure.

On my first real day on the job, I was assigned a "desk partner" which in my case was a seasoned broker about 30 years my senior by the name of Irwin Miller. Long story short I learned more in a few days (and thereafter) than during the previous six months. I'm sure this is the norm almost regardless of one's profession, the real learning seems to occur on the front lines and not by book or in the classroom. Suffice it to say, I learned more from Miller than I can remember. A lot of it sounds somewhat irreverent now, but he had a way of distilling the essence of things into the most simple phrase or cliché. An example was his simple rule for advice on whether a customer or prospect should buy or sell a stock "if you got it, sell it; if you don't got it, buy it". As a commodity broker, it didn't really apply to me, but it sure cut to the chase.

I invoke Miller's memory because of his many simple clichés, one seems most appropriate at this time, namely, "prices can go as high or as low as there are numbers" meaning that it is folly to assign a reconceived price level on anything that you think a stock or asset can't possibly go higher or lower than. This doesn't mean that one can't strive to identify instances of over or under valuation, as that's the whole point of analysis; but the arbitrary assumption of a rigid price bottom or top must be avoided.

In fact, Miller's principle seems to be in play currently to both extremes, as many assets seems wildly overvalued, while others, particularly silver, seem just as wildly undervalued. But the mistake would be in arranging one's investment affairs in a manner that would seriously hurt should assets deemed to be too high continued to rise, while assets deemed to be too low continued to fall. What this means, in practical terms is to not let a price move deemed not probable to occur take you out of a position.

If you are buying something that you feel is undervalued and cheap, it makes little sense to sell it because it has gotten cheaper temporarily. Of course it's important not to put yourself in a position where the choice is no longer yours, namely, the inability of meeting a margin call. Just as I've studiously avoided ever saying, thanks to Miller, that silver can't ever go to such and such a price, I've preached against the pitfalls of margin.

In the case of silver, that means if you've bought due to well-founded and perceived undervaluation and future extreme price gains, the occurrence of a price lower than previously anticipated shouldn't cause you to sell. If anything, an undervalued asset getting more undervalued should be an occasion for holding or buying more. That's not to say that if the underlying premise for buying in the first place changes radically and no longer has merit that one should hold on. But that has not occurred in silver (or gold). Yes, silver prices have hit recent new lows, but, if anything, the premise for buying silver is stronger than ever.

First and foremost, silver is a vital and indispensable physical commodity. As such, it can't possibly go bankrupt or simply disappear or cease to exist. I suppose a stock or other security dropping in price raises the fear of insolvency, but that's not possible for a physical commodity. The simple fact is that silver, as well as all other commodities, will be produced and consumed long after all of us have departed this world. A slight multi-year new price low matters little in the long term scheme of things.

The fact is that silver, being the best conductor electricity, among other attributes, is being used more than ever in vital industrial applications. And while the low price hasn't caused a particularly sharp falloff in mine production yet, that's more due to the glacier-like nature of production increases and decreases. For sure, the incredibly low silver price is not causing any rush to develop new mines, something that will and must be felt in time.

The truth is that actual silver production and consumption have nothing to do with current prices; as the price is set solely by paper trading on the COMEX. So, if one is looking for an explanation for the current price drop and the future price rise in silver, one must look to the COMEX. And when one does look to the COMEX, unless one is incapable of seeing, the central focus must be on JPMorgan - the undeniable kingpin of the market. It is only when one focuses on JPMorgan does the real picture emerge in silver. This has been true ever since this crooked bank took over Bear Stearns (the previous silver manipulator) in March 2008.

I'll not walk any further down memory lane today, except to note that JPMorgan's principle feature today is the remarkable 750 million physical ounces of silver and 20 million ounces of physical gold that it has accumulated since 2011. That looms as the largest single factor currently in force in the silver and gold market. And while I would estimate that JPMorgan may be down as much as \$4 from its average purchase price of physical silver and at breakeven in terms of its average purchase price of gold, the \$3 billion unrealized loss it is behind on its silver hoard is less than the cost of doing business, since JPM has made many billions more in paper trading on the COMEX over the years. Never taking a loss adds up to mucho profits over the years. Of course, aside from JPMorgan continuing to acquire physical metal, JPM's physical holdings have little to do with the recent swoon in silver and gold prices.

The sole reason we have declined in price through yesterday is JPMorgan's burning desire to buy as many COMEX futures contracts as possible. The only way JPMorgan can accomplish this is by

inducing others to sell. And the only way JPMorgan induces others to sell is by artificially and illegally maneuvering prices lower. It did this in early morning holiday conditions this week and into trading yesterday.

Sudden new price lows are rigged to set off selling from a number of participants; new short sales by managed money technical funds, liquidation from the newly established managed money concentrated longs and general margin call liquidation from under-financed longs of all stripes. These were the principle targets of the deliberate new price lows and will be the main feature of this Friday's COT report. Just as these traders were the intended target of the selloff, the principle beneficiary was most likely JPMorgan.

Certainly, there can be no question that JPMorgan has been the principle beneficiary of the nearly three-month continuous engineered price decline in silver and gold, having bought back absolutely enormous quantities of COMEX silver and gold short contracts. This is borne out in COT data to date and what's most likely to continue to be confirmed on Friday. I don't think there can be much argument with the statement that the single entity which bought back the greatest number of short contracts at absolutely enormous profits on the decline would be the biggest beneficiary. And that entity is JPMorgan.

Yesterday's extremely high volume (combined with Monday's holiday trading) suggested heavy managed money selling and commercial buying, same as ever. The only question in silver is how many new technical fund shorts were added and how many managed money concentrated longs were liquidated. Depending on those sales, it is reasonable to assume that JPMorgan was able to buy back large quantities of additional contracts. I would estimate that Friday's COT report will indicate that since June 12, JPMorgan will have bought back 40,000 silver short contracts, its entire short position; including the 20,000 short contracts it added until June 12 and the 20,000 contract short position it held before the increase.

The 40,000 short contracts that I believe JPMorgan bought back in total (up from 35,000 contracts in last week's report) is the equivalent of 200 million ounces, roughly double the full year average annual accumulation of physical silver by JPM over the past 7.5 years. In other words, JPMorgan bought, via COMEX futures contracts over the last three months, twice as much silver as it has been able to buy in a full year. If this wasn't largely fully confirmed in COT data already, I would have trouble believing it; not because it undermines in any way everything I've contended about silver and JPMorgan all along, but because the proof is so starkly obvious as to be undeniable.

If my calculations about JPMorgan are completely verified (they're already 90% verified), what this means is that the most crooked bank in the world is even more locked and loaded for an upside move of historic proportions. Its entire 750 million ounce silver and 20 million ounce gold physical positions are now completely unencumbered by any paper short position whatsoever for the very first time ever. Mathematically, these are now the largest long positions ever held by JPMorgan or by any other for-profit entity in history.

Can JPMorgan rig even lower prices and increase its epic long position even more? Who knows? I do know it will take new price lows to induce additional counterparty selling, in the form of new managed money technical fund short selling and/or further long liquidation by the concentrated managed money longs for JPMorgan to buy even more; and according to my desk partner/philosopher of long ago, new price lows are always possible. The important thing is to check and double-check the basic premise to

be long silver and, for me, that's more than intact. Someday and of this I'm sure the shoe will be on the other foot and the question will be how can silver prices go any higher than the ridiculously high prices they will be at the time. It's probably going to be a lot harder to abide by Irwin's words at that time, but I'm convinced they'll be just as true.

Finally, it's time to calculate and review the money scoreboard in light of this week's dramatic declines in silver and to a lesser extent, gold. This is my running calculation of how the newly added (since June 12) technical fund short positions in silver and gold are faring in terms of open and unrealized profits. While the technical funds have increased their open and unrealized profits as a result of this week's price declines, the actual results seem to be a bit less dramatic than the emotions generated by the price drop, particularly in silver.

Gold is the big money component in the scoreboard tally and the \$4 drop (on 135,000 contracts) since Friday until today's close adds \$54 million to the tech funds open profit, while silver's much larger 32 cent drop (on 53,000 contracts) adds \$85 million more, or a combined total of \$139 million. This brings the running tally to \$814 million, up from Friday's \$675 million and still slightly below the \$950 million at the peak two weeks ago.

What matters, of course, is when and at what price the technical fund shorts will be closed out as they must be closed out at some point. The question surrounding JPMorgan is profoundly different and, in fact, there is no question at all that its previous open shorts have already been closed out or nearly so. The question is whether JPMorgan will add to short positions yet again on the next rally. I won't litigate the answer again today, but just point out that JPM doesn't have to sell short again. The technical fund shorts have no choice they must buy back at some point. I'm convinced that will prove to be the key difference going forward.

Ted Butler

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Silver – \$14.23 (200 day ma – \$16.31, 50 day ma – \$15.39)

Gold – \$1202 (200 day ma – \$1291, 50 day ma – \$1225)

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