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**Subject:** Brave New World in Comex Silver

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In a break in the weekly pattern over the past couple of months, gold and silver declined this week. Gold, after rising in 10 of the 11 previous weeks, declined by about \$40, or about 3%. Silver, which had risen in the previous 8 weeks, declined by about a dollar, or a bit over 4%. Both metals are still up from their most recent concurrent lows on August 23; gold by more than \$100, or almost 9%, silver by almost \$5.50, or just over 30%. Through Friday's close, the move from the late August price lows goes something like this; gold ran up about \$150 and has pulled back \$50. Silver ran up almost \$7 and has pulled back \$1.50 to \$2.

Now the question is where do we go from here; does the rally resume or are we due for more price downdrafts? While no one knows in the very short term, I'll try to set the parameters and look at what may be ahead. First though, I'd like to comment about getting too wrapped up in the daily price changes (Yes, this is another lecture from the book of do as I say, not as I do). Big price volatility has come to stay and grow larger. We must accustom ourselves to it. We must fight the mood swings, both the highs and the lows that come with the increasing volatility, both for ourselves and those close to us. The only way to do that is force yourself to think long-term and not hold on margin. The goal for silver investors is to hold until it is time to sell and move on to something else with no regrets. I don't know, of course, just when that time may arrive, but I do think I know it won't be a decided on a whim or on one day's price action. Short-term price volatility is the enemy of long-term decision-making.

Yes, silver is a manipulated market and when we get sudden downdrafts in price it is most likely due to the actions of the big commercial COMEX shorts. It does no harm to contact the regulators when this occurs to remind them that there is a crime in progress while they are sitting on their duffs. Turn any frustration into a positive force. But don't let the volatility take

control of your emotions and quality of life. Silver has been a spectacular long term investment over the past decade and promises to be even more so in the future. Besides, while most silver investors get down emotionally when prices drop, not all do. I talked yesterday with a well-known institutional money manager who was ecstatic about the recent drop in the silver price, even though he may be the largest holder of silver that I know of. The reason for him being so upbeat was because he was scheduled to shortly buy a good chunk of additional silver and the sell-off was to his advantage. It's always a matter of perspective.

In the physical world, there was no change in the holdings of the big silver ETF, SLV, where the amount of silver on deposit remained at record levels near 329 million ounces. The big gold ETF, GLD, shed about 100,000 ounces for the week. It's a little difficult for me to gauge accurately what might be due into the SLV, at this moment, because price volatility and volume suggest more of a two-way trade this past week. I do think there's another 5 million ounces or so still owed to the Trust. What I more confident of is that there was a significant amount of buying back of SLV shares previously shorted. That's always constructive for future price action. There was no big change in COMEX silver warehouse inventories, but with continued good movement in and out, something suggestive of tight physical market conditions.

The most recent Commitment of Traders Report (COT) was, on balance, constructive for silver and gold in that the total net commercial short position declined in each. In silver, the total commercial net short position declined by 3400 contracts, with the four largest shorts reducing their concentrated net short position by 700 contracts. Gold had a total net commercial short reduction of 6300 contracts, but unlike in silver, the big 4 and 8 largest shorts increased their concentrated short positions somewhat.

The observation I made recently about a large concentrated silver long reducing his long position showed up again in the latest COT. This big long appears to have reduced his long position by a further 2,000 contracts in the latest reporting week, bringing his two week liquidation total to 5,000 contracts. This trader's entire long position appears to have now been liquidated. That's an awfully large number of contracts and amount of silver equivalent ounces (25 million) for one long trader to have liquidated (assuming my analysis is accurate). I find this also constructive, as having banked such a large profit

(\$50 to \$75 million); this trader should be interested in re-acquiring the long position at some point. Certainly, it would appear the trader can't sell the 5,000 contracts until he first re-buys them.

I'd like to continue along the lines of looking at the COT with a different perspective, but first a few general COT comments. I hope everyone realizes that I am offering my subjective interpretation of the COTs (based on the actual data). In fact, I would imagine that's why many subscribe in the first place. I find the study of the COTs to be fascinating and the data contained therein to be invaluable. I still pinch myself sometimes for how fortunate we are to have such a valuable resource available at no cost. It always explains what took place in every major move, and sometimes predicts price moves in advance. That said, the COTs shouldn't be relied on as a timing indicator. The COTs fully explain and confirm the silver manipulation, among other things.

In fact, my main purpose in studying the COT reports is to look for clues as to when the silver manipulation may be ending. That's my main filter. To do that, what I am generally on the lookout for is any change from past patterns. My reasoning is that, over the years, we witnessed the very regular pattern of the commercials luring the technical funds into and out of the market by engineering prices higher and lower through the key moving averages, both on the upside and downside. The technical funds, being slaves to buying on the way up in price and selling on the way down, enabled the commercials to take the other side of the bet with impunity. That's because the commercials always knew how the mechanical tech funds would behave to any change in price through the moving averages. The commercials had, in a very real sense, the tech funds' playbook. After all, it wasn't a very complicated playbook (much like the old Ohio State football team under Woody Hayes – three yards and a cloud of dust). Plus, since the commercial were always selling on the way up and buying on the way down (opposite the tech funds), they always had a convenient excuse when the CFTC was moved to inquire about my allegations of manipulation. The commercials could always say they were blameless because they always bought on sell-offs and sold on rallies, and the CFTC didn't know enough (or didn't want to know) to question how the heck the commercials were always so "lucky." Because of this, the silver manipulation was almost the perfect crime.

Because of the regularity of the commercial/tech fund buying and selling, it became easy for me to spot

very low risk and high risk conditions in the silver market. When the commercials held a small net short position (and the tech funds a small long position), it was time to buy. When the commercials held a large short position (with the tech funds big long), the danger of a sell-off was high. I know many profited from that observation over the years. What about now?

Over the past year or so, as I have intensified my study of the COTs, I have also backed away from relying on it as the main factor in buying or selling silver. That's because too many powerful forces have emerged to rival the COT as the main force driving the price of silver. Certainly, big changes in the physical market or in the regulatory world could trump the COTs in a heartbeat. Those changes seem to be in place. Still, I look for clues from the COT. In keeping with the observation about the big long having recently liquidated 5,000 COMEX futures contracts as a change in the regular patterns of the past, I see a broader pattern change worth mentioning.

In just about every previous major price rally in silver (and gold) over the past 20 years, there has always been a notable build up in the tech fund long and commercial short position. The pattern now appears different, particularly in silver. The latest COT, as of the close of business on Oct. 19, indicates that the market structure is almost identical to the COT structure on August 31. In other words, we are very close to what the commercial short position and tech fund long position, both on a total and concentrated basis, was back on August 31. Even the non-reportable position is very similar now to what it was back then. What this means is that the speculators haven't loaded up on the long side. This reduces the possibility of many late buyers being flushed out in a sell-off, since there weren't many late buyers on the COMEX to begin with. That's also constructive.

The only major difference, of course, is the price of silver. Back on August 31, we closed at \$19.33. On Oct 19, we closed at \$23.58, a gain of \$4.25 or 22%. In other words, the price of silver was up big and the COT structure remained unchanged. That qualifies as a different pattern to me.

Those are the facts, now let me speculate. My first conclusion is that silver rose for reasons not primarily related to changes in the COT structure, since the structure didn't change. What did change in the world of silver? The biggest observable change was the inflow of around 30 million ounces into the

big silver ETF, SLV. This, after months of no inflows into the Trust. This is suggestive that the COMEX may be losing its control and domination of the silver price. If so, halleluiah. Another big change was the major change in commodity law, as a result of the signing into law of the Dodd-Frank reform act. I can't help but think that this new law represents a very big change in how the big commercial short crooks will be forced to behave in the future. Remember, I start out with the objective of looking for a change in the COMEX manipulation pattern. Those changes appear to be at hand.

What does all this mean to the price? In the short-term, who knows? You don't want to underestimate the crooks' ability of knocking the price down, despite the growing widespread awareness of the silver manipulation. All you can do is to be prepared for dirty tricks to the downside and not lose positions if we do decline temporarily. A short-term sell-off, however, is not preordained. In the long-term, these changes mean good and plenty, just like the candy. Take the COMEX out of the driver's seat as the controlling price factor and we will be in a brave new silver world. A world in which real supply and demand will drive prices, not some paper crooks in Manhattan. A world where regulators know what's right and what's wrong and live up to their sworn duty. A world in which we will look back and marvel at how cheap silver had been.

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