



CPM Group

Cognitive Dissonance in Silver And Politics

*The Silver Summit
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“Every man has a right to his opinion, but no man has a right to be wrong in his facts.”

Bernard Baruch

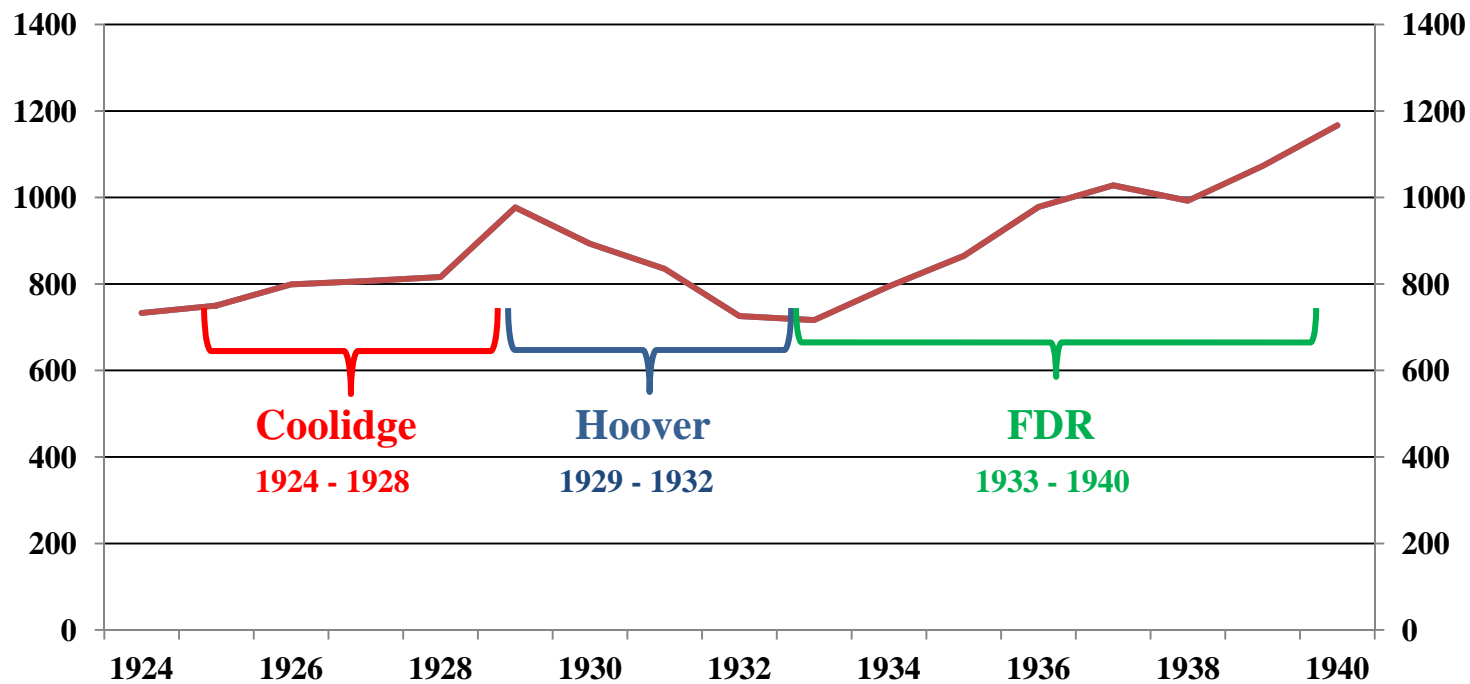
For a True Believer, “To rely on the evidence of the senses and of reason is heresy and treason.... The fanatic cannot be weaned away from his cause by an appeal to his reason or moral sense.”

The True Believer
Eric Hoffer

Selective Perception In American Politics

Too many Americans believe (not think) that the Great Depression started under FDR, and not four years before he was elected.

Real GDP, Annual, 1924 - 1940, Billions of 2000 Dollars



Cognitive Dissonance in Silver

Where Was The Silver Collapse, In September or Earlier?

Silver hucksters have been telling you since the late 1980s, or the late 1990s for some of them, that there is one, or a few, bank(s) with enormous naked short positions in silver that would ‘blow up’ in their faces.

The latest was a **promise** by GATA on Kitco in August that JP Morgan’s purported silver short would blow up during September.

It’s late October now. Once again, no silver short position blew up... **because there are no such naked short positions.**

How many times does someone have to lie to you before you stop believing him?

Quiet Success Over Public Bluster

I Get Tired Of Liars Misrepresenting What I Said, But I Don't Mind Them Making Fools Of Themselves While We Make Money For Ourselves And Our Clients.

- 11 September we said we were telling our clients to short gold
- 13 September FOMC announcement
- 14 Sept we sold gold at \$1,775.10, Dec Comex futures
- 27 Sept we bought back at \$1,766.70.
- 28 September we sold gold at \$1,775 again, Dec Comex Futures
- 18 October: We bought back at \$1741.40

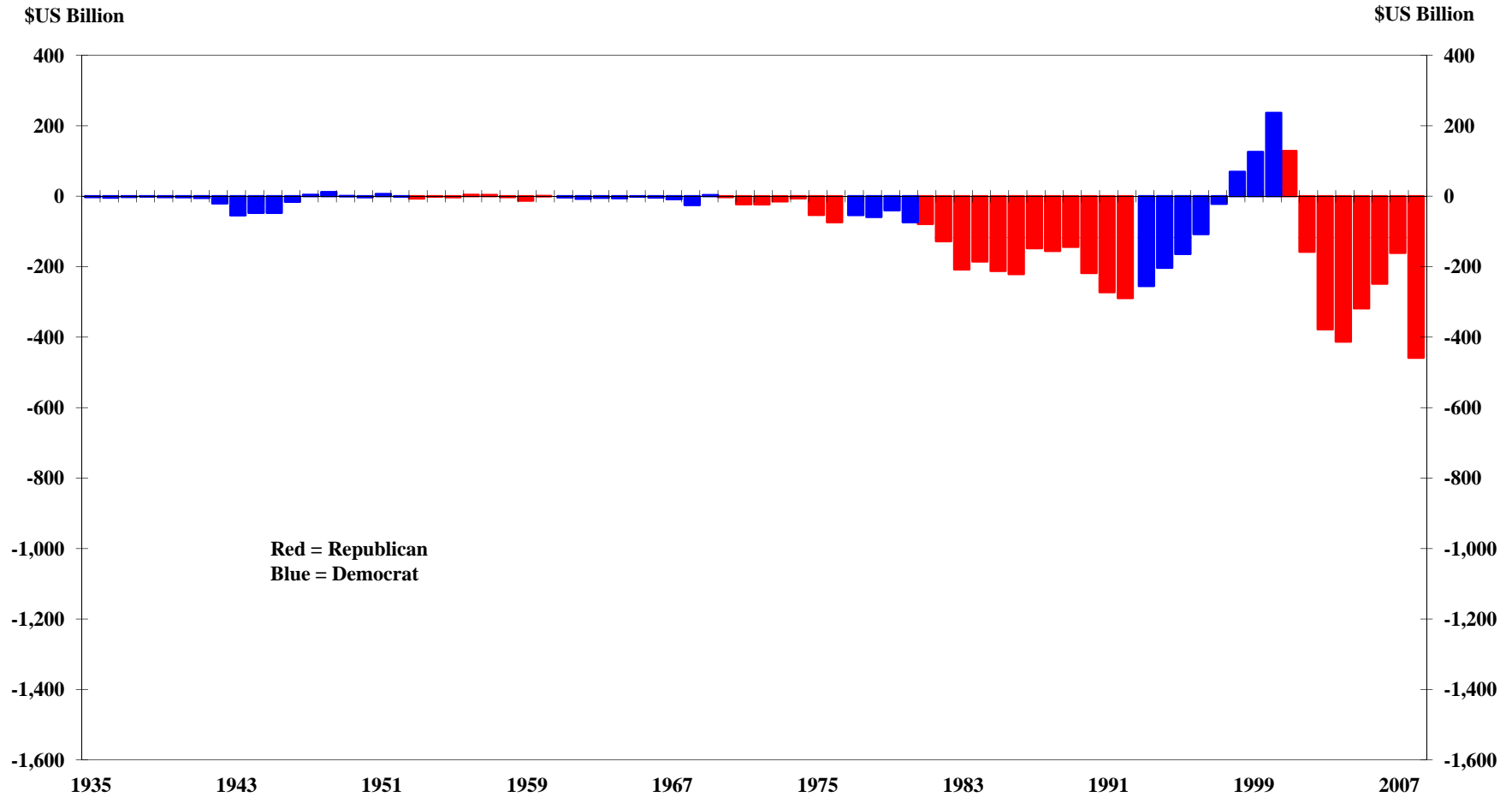
Net profit so far: \$42 per ounce.

What did your gold position earn the past five weeks?

Politics

Can A Fiscal Conservative Vote Republican?

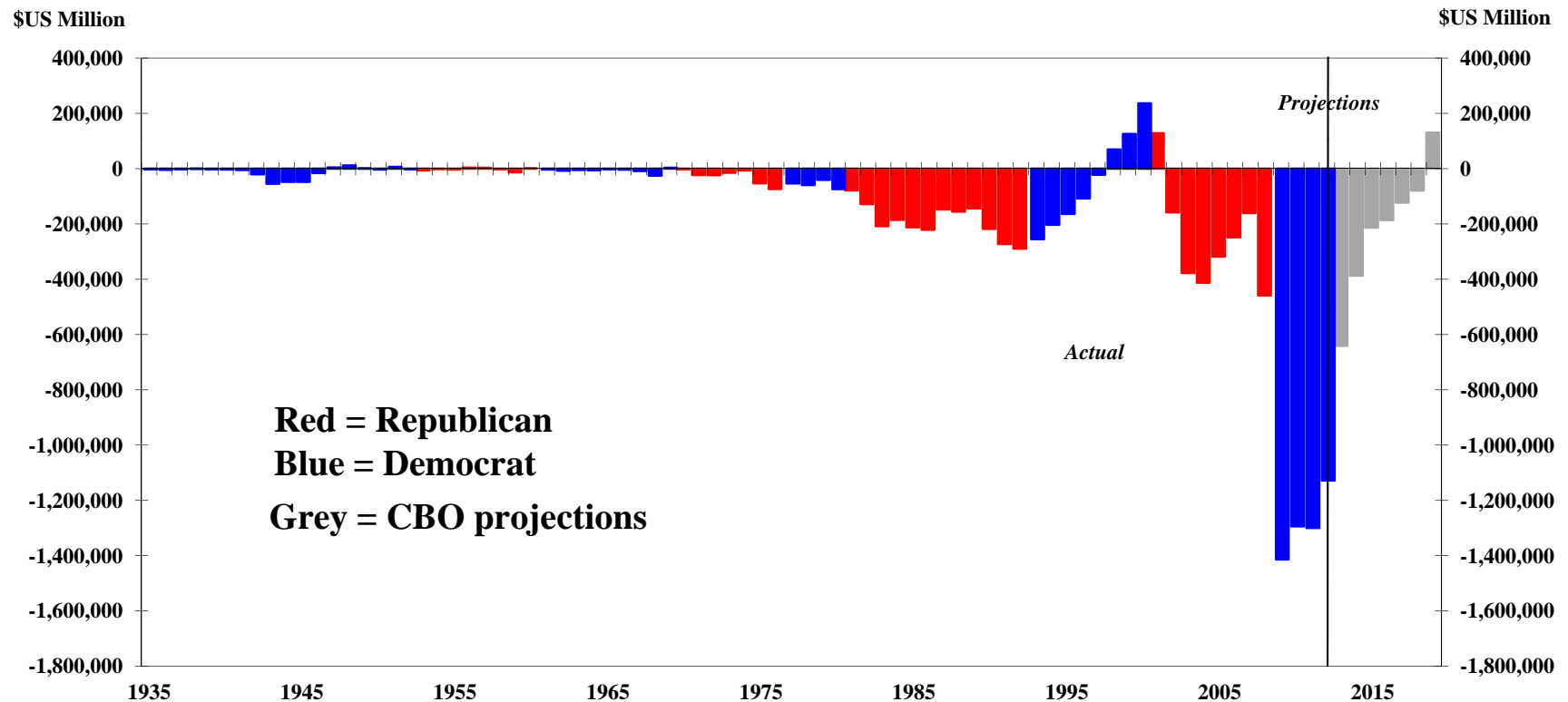
U.S. Budget Surplus & Deficit, CBO Projections, 1935 - 2008



And Then, Along Came The Financial Tsunami and Obama

Are You Familiar With The Bush Era Tax Refund Program?

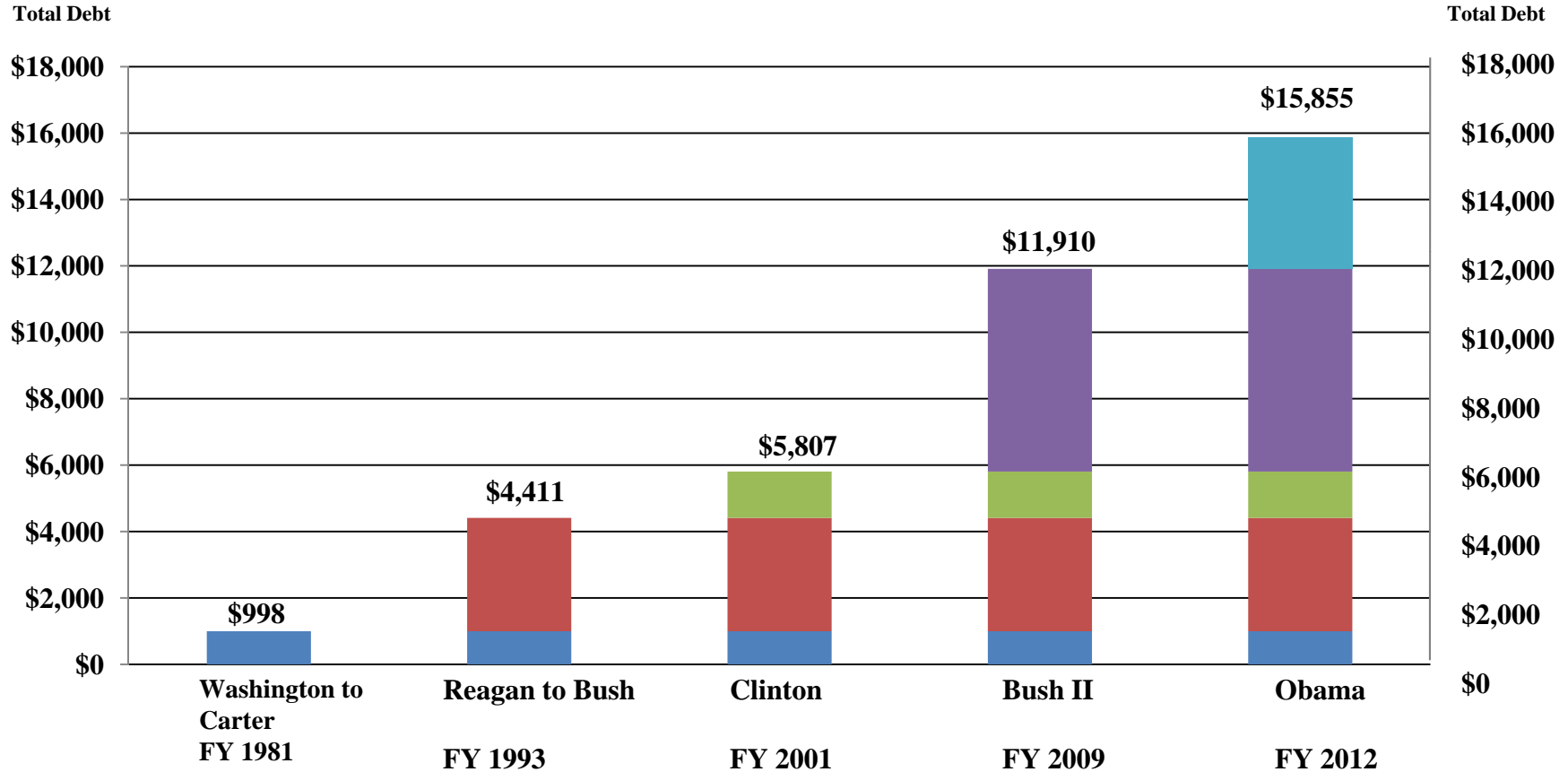
U.S. Budget Surplus & Deficit, Projections to 2022



The Growth Of Federal Debt

U.S. Federal Government Total Debt

Billions of U.S. dollars, end of fiscal year

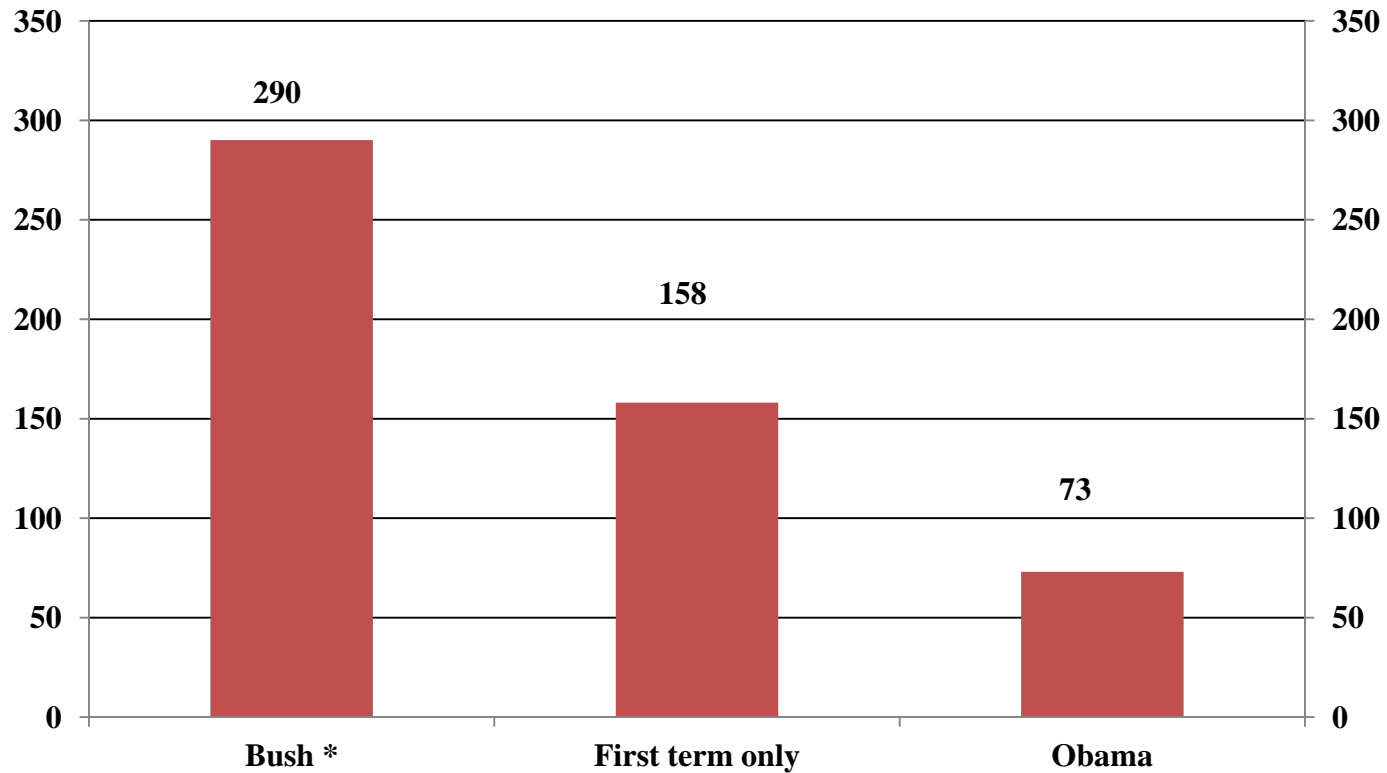


Note: Each figure is for the end of the last fiscal year, the budget of which was generated by the last President listed for each period. The fiscal 2012 figure is through July, the last period which data is available.

Who You Calling “Dictator?”

Total Presidential Executive Orders

As of 14 September 2012



* Plus one "Directive:" The National Security and Homeland Security Presidential Directive.

The Data Behind Who You Calling “Dictator?”

Presidential Executive Orders

As of 14 September 2012

	Bush *	First term only	Obama
Starting Number	13198	13198	13489
Finishing Number	13488	13356	13562
Total	290	158	73

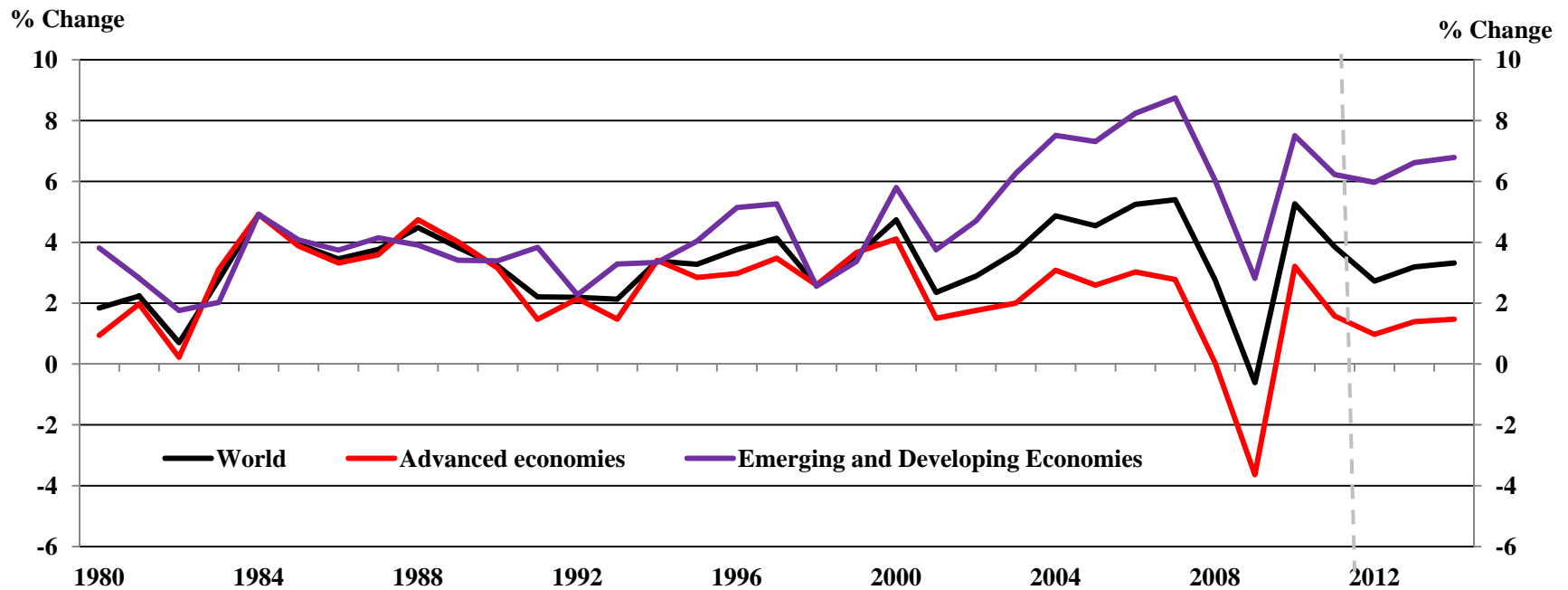
*** plus one "Directive:" The National Security and Homeland**

Security Presidential Directive.

The State Of The Economy

Economic Growth Is Expected To Remain Sub-par For Years

Real Gross Domestic Product
Annual, Projected Through 2014

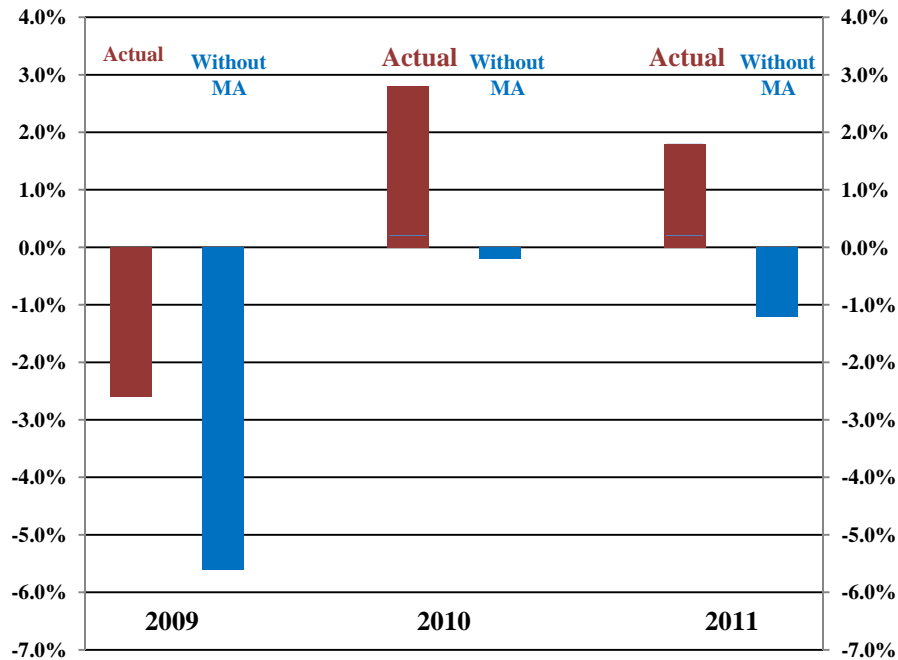


Source: IMF, CPM Group

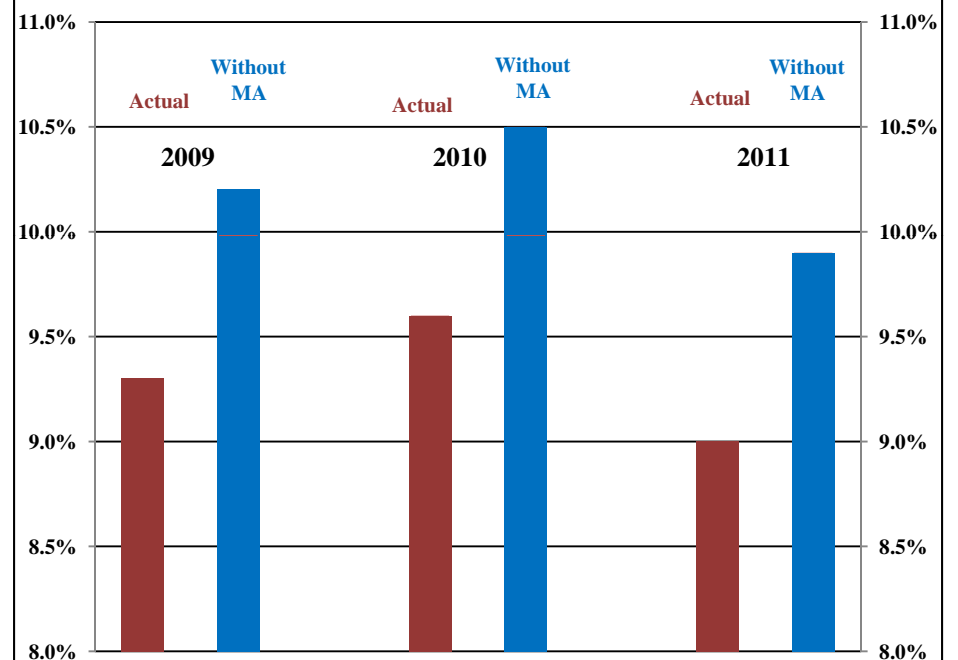
Note: Historical data are IMF statistics. Projections are made by CPM Group. Projections for "Emerging and Developing Economies" are only for BRIC countries, which account for approximately 52.8% of this category. Projections for "Advanced Economies" are only for the U.S., U.K., Eurozone, and Japan. These countries accounted for 82.2% of this category.

Do You Really Believe Fed Policy Didn't Help?

The Effects of FRB Monetary Accommodation -- U.S. Real GDP



The Effects of FRB Monetary Accommodation -- Unemployment
Annual Average Unemployment Rate



Note: The estimated real GDP and employment levels in a hypothetical model in which the Federal Reserve had not undertaken its rounds of large scale monetary accommodation are CPM Group estimates based on the results of FRB studies using the FRB/US

econometric model of the U.S. economy.

Source: CPM Group

16-Sep-12

The Data:

The Effects of FRB Monetary Accommodation

	2009		2010		2011	
	<u>Actual</u>	<u>Without MA</u>	<u>Actual</u>	<u>Without MA</u>	<u>Actual</u>	<u>Without MA</u>
U.S. Real GDP	-2.6%	-5.6%	2.8%	-0.2%	1.8%	-1.2%
U.S. Employment	108.6	106.6	107.5	105.5	109.0	107.0
<i>Non-farm private payroll, annual average, millions of employed people</i>						
Unemployment Rate	9.3%	10.2%	9.6%	10.5%	9.0%	9.9%

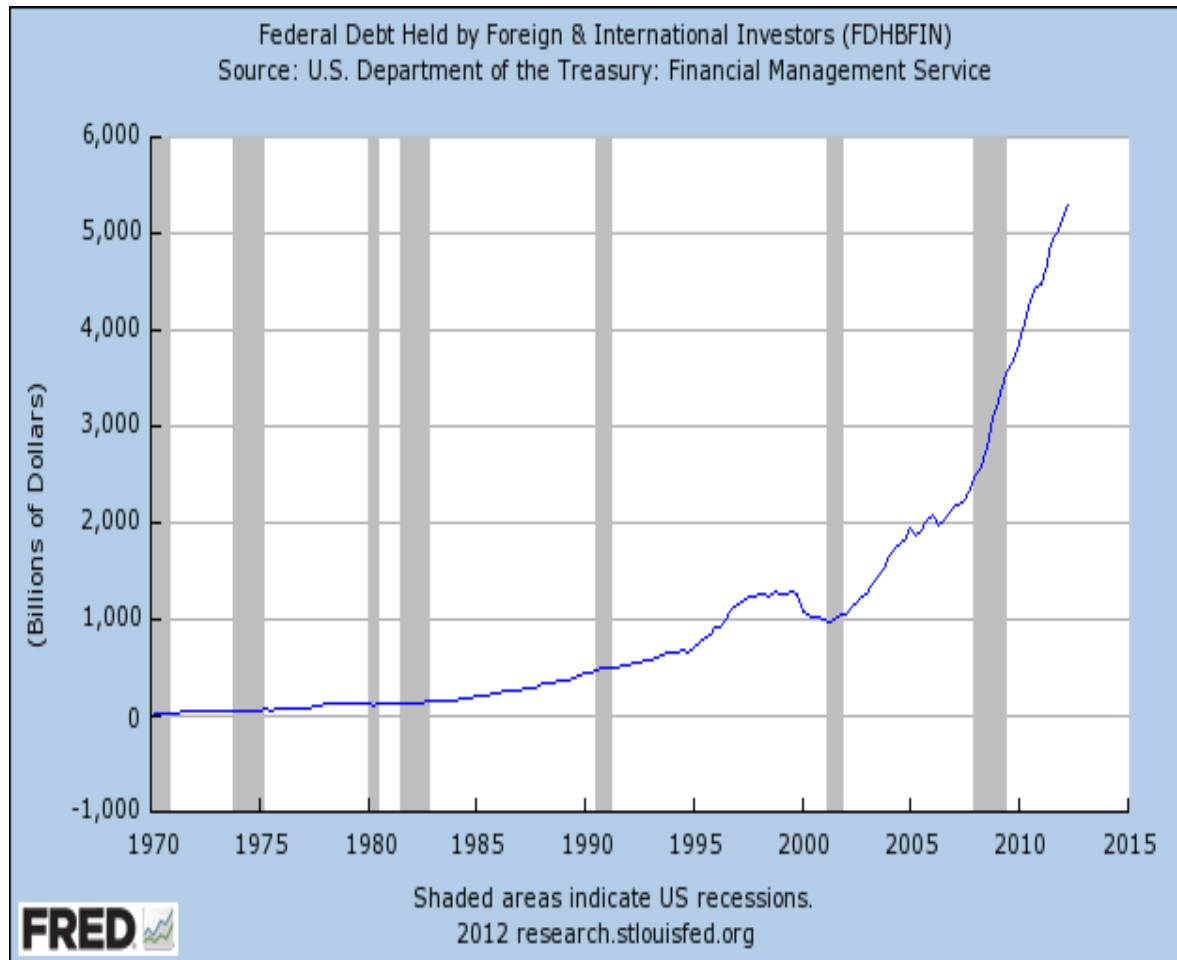
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Source: CPM Group

16 September 2012

Who Are These “International Investors?”



Hucksters try to scare investors with warnings that overseas investors could ‘dump’ their U.S. Treasury holdings, causing a major financial crisis in the United States.

A large, but unknown, portion of U.S. Treasury securities held offshore are estimated to be held by U.S. citizens, funds, and companies. Some estimates are 20% - 50%.

Having wealthy Americans holding these Treasuries may be is scarier than having the Chinese government hold them. They are more likely to use them as financial weapons.

If Ron Paul Really Wants To See A Fed Audit:

http://www.federalreserve.gov/monetarypolicy/bst_fedfinancials.htm

The Federal Reserve Board and each of the independent regional Federal Reserve Banks undergo an annual audit by an independent private auditing firm that has no other commercial or financial relationships with the Federal Reserve banks and system.

Since 2008 at least summary reports on the audits are available at the Fed's website, at the location listed above.

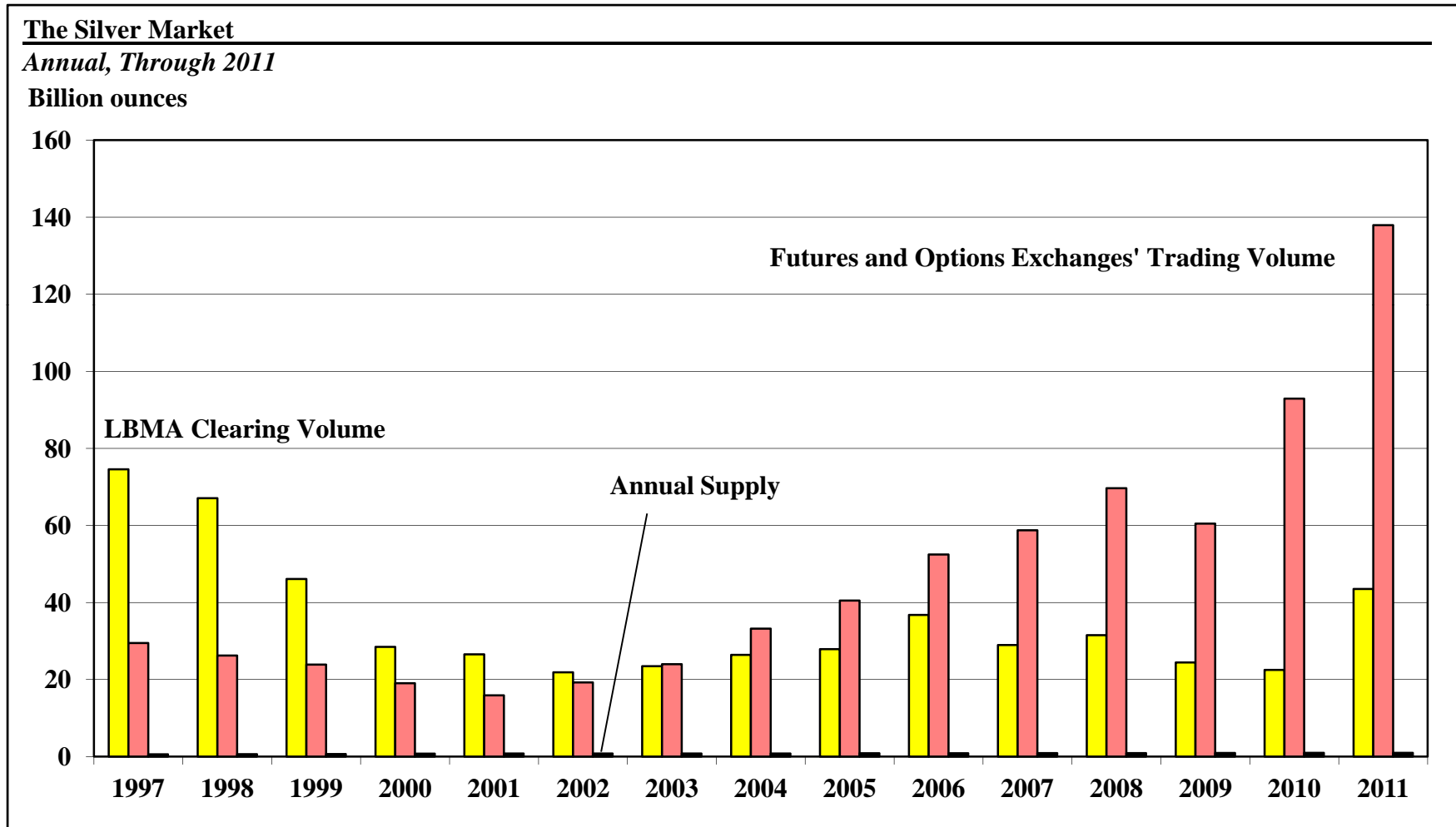
The question is not why isn't the Fed audited. The question is why does Ron Paul say he is an expert on monetary affairs and the workings of the Federal Reserve System, and yet he seemingly is unaware this information is readily available to anyone anywhere in the world who has a link to the internet.



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Silver

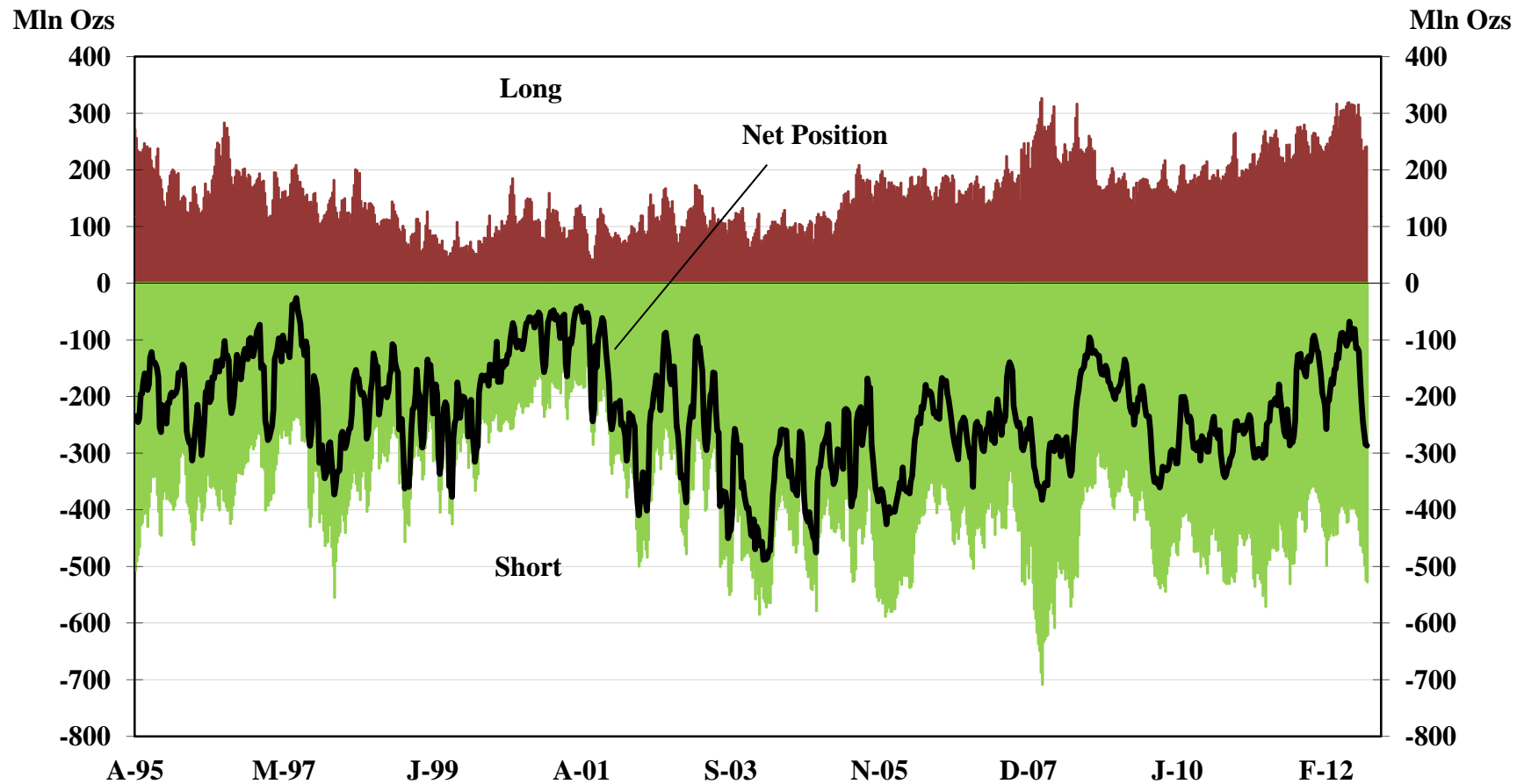
The Size of the Silver Market



Commercial Positions In Comex Silver

Gross Long and Short Positions of Commercial Positions

Comex Silver Futures and Options. Weekly Data, Through 2 October 2012



Concentrated Commercial Shorts In Silver

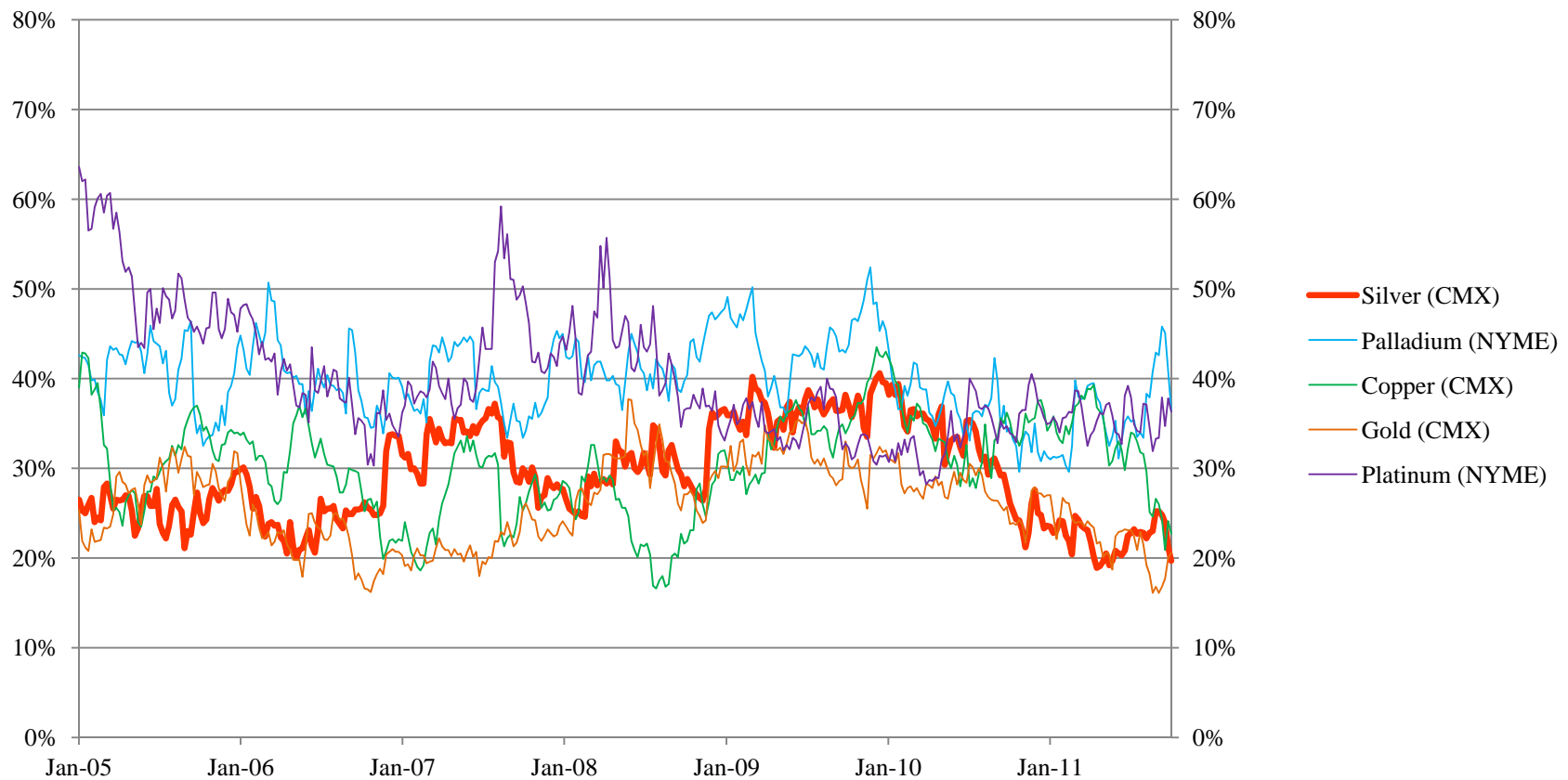
There is a mis-belief spread by silver marketing hucksters that there are unduly large uncovered short positions held by bullion banks. The further assumption has been made that JP Morgan has most of those positions.

In reality:

- **The short positions are hedges of long positions in the physical, forward, and OTC markets.**
- **The short positions are not unduly large. In fact, analyses of the physical, forward, and OTC markets shows that even more short positions must exist elsewhere. They do: In the OTC market.**
- **The concentration of short positions held by a handful (four) of banks or dealers on the Comex silver futures and options contracts is not out of line with the levels of concentration in other contracts.**

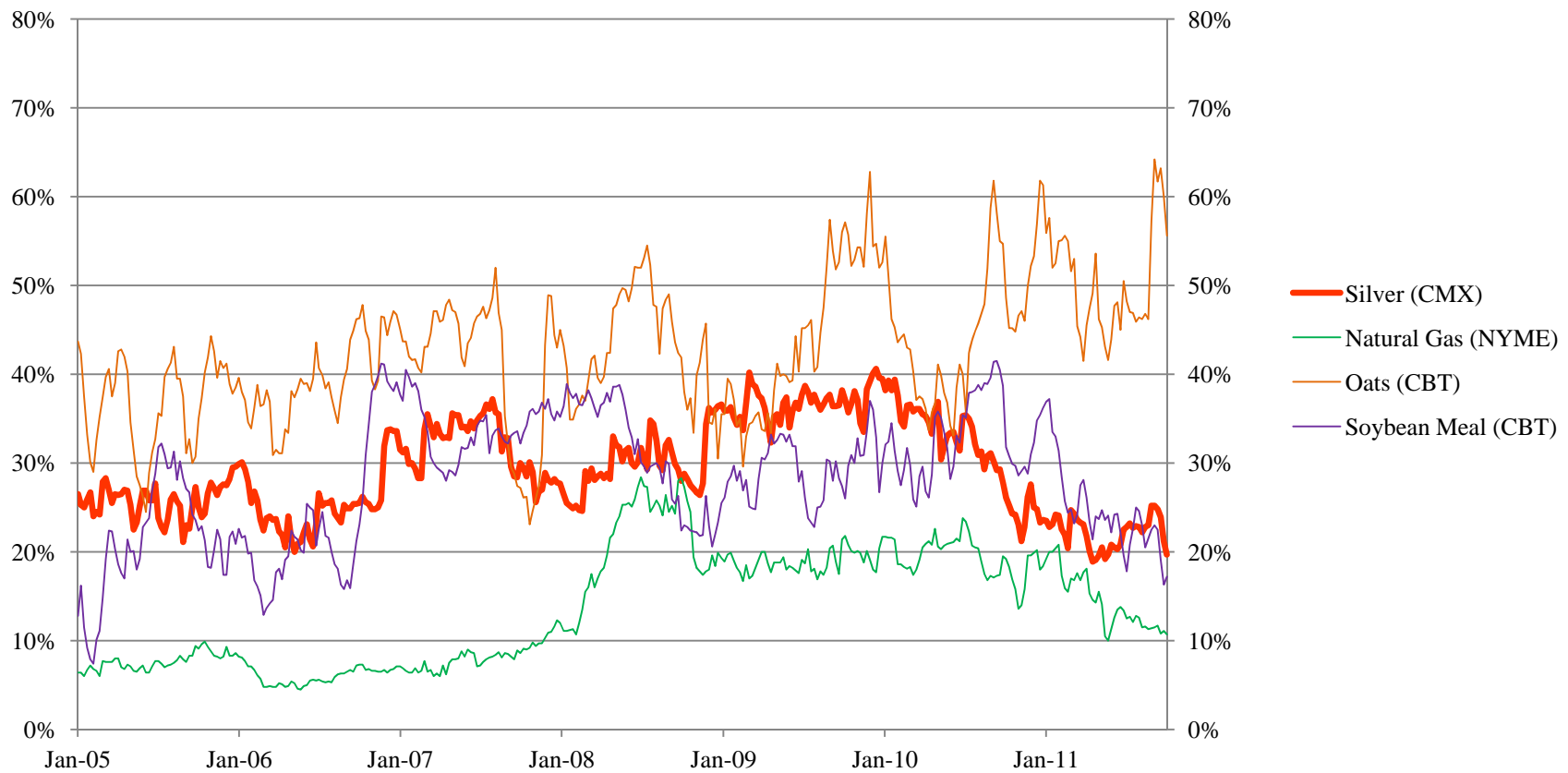
Concentration of Commodities Futures Positions

Concentration of Net Short Positions by 4 Largest Traders
Weekly, Through Sept 2011



Concentration of Commodities Futures Positions

Concentration of Net Short Positions by 4 Largest Traders
Weekly, Through Sept 2011



The Silver Shorts You See Are The Hedges

One of the reasons why investors get confused by these lies is that they are thinking of the short positions they see on the futures exchanges backward. They say, ‘These shorts must be hedged somewhere.’

That’s backwards. **These shorts *are* the hedges** – of long positions in physical metal, of metal bought by banks and leased to fabricators, of metal bought in unrefined form by banks during the smelting and refining process, of metal the banks have bought or committed to buy from producers, smelters, refiners, fabricators, investors, and others.

If investors can understand that the bullion banks are being bullion banks, buying, selling, lending, and financing precious metals, and that the positions on the Comex are hedges of the banks’ businesses, then they might begin to understand why the short positions never will ‘blow up’ in the banks’ faces. **It is *not* that the short positions are covered by long positions elsewhere; it is that *the long positions the banks take on as part of their core business is hedged by the short futures and forward positions.***

Other Misconceptions About Silver Short Positions

There are a number of other misconceptions about these short positions.

- **It's not JP Morgan.** At least two other banks have larger silver positions than JP Morgan.
- **You cannot drive a bank to bankruptcy by pushing silver prices higher. In fact, the higher prices go, the more money banks make in their silver positions.**

This is partly because they have massive long positions and hedge them intelligently. It also is because they charge a percentage of the value of the metal for the metal they are buying, financing during smelting and refining, leasing, storing... and the higher the price of silver goes, the greater the money they earn in charging a percentage of the value of the metal involved. **At \$30 per ounce, they earn six times more than at \$5 per ounce.**



How *Not* To Bankrupt A Bullion Bank

Banks Make More Money At Higher Silver Prices

<u>Silver Price</u> <i>per ounce</i>	<u>Lease Rate</u> <i>per year</i>	<u>Lease Revenue</u> <i>per ounce</i>
\$5.00	3%	\$0.15
\$35.00	3%	\$1.05
Increased Revenue		600.0%

Estimated Long Physical Silver Position At Banks

Rough Estimates Of Silver Long Positions Of Bullion Banks At Any Given Moment

	<u>Million Ounces</u>
Silver in Unallocated Accounts	300
Silver Forwards with Producers	200
Silver Smelting and Refining Forwards	111
Silver on Lease to Electronics Companies	960
Silver on Lease to Jewelers	1,000
Silver on Lease to other Fabricators	450
Silver backing Investment Notes and Bonds	300
TOTAL	3,321
<hr/>	
Short Position of Commercials on Comex	500
Difference, Longs Minus Visible Short Comex Position	2,821

Excessive Leverage

Silver hucksters say there is excessive leverage in the silver market.

They have repeatedly continued to misrepresent a comment I made in 2010. Even though many other people have corrected them, they continue to lie and misquote me. Some of those who have attempted to correct this clearly intentional lie have mistakenly assumed that the liars simply do not understand what leverage is, despite their efforts to teach them.

There is not particularly excessive leverage.

Banks tend to manage their gold and silver deposits with lower leverage factors than they do their dollar deposits. (Non-bank trading companies are another story.)

The turnover in gold and silver is quite distinct from leverage. The turnover is in line with the turnover of dollars, euros, Treasury bills, Treasury notes, and other financial assets. It is higher than the turnover in industrial commodities markets, highlighting the fact that gold and silver trade as financial assets and not industrial commodities.

This all is something we have written extensively about since the 1990s. It's nothing new ... to anyone who knows anything about the gold and silver markets and chooses not to lie about these markets.



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Derivative Trading Does Not Represent Leverage

The ratio of derivatives to annual physical demand DOES NOT EQUAL leverage.

The ratio of derivatives to annual physical demand in silver and gold are around 100:1, the same as in major currency markets like the U.S. dollar and euro, the markets for Treasury bonds and bills, and other financial markets. In other words, this figure tells you that gold and silver trade like financial assets, not like industrial commodities such as oil, aluminum, or corn.

Banks tend to manage their gold and silver under OCC regulations using ratios similar to, or a bit lower than, the 12% reserve requirement for their currency deposits. In other words, **banks' leverage is around 8:1**. Not 100:1.

Numerous people have explained this to various liars on the internet and elsewhere repeatedly since my testimony in March 2010. Everyone has had ample opportunity to learn the distinction and the error of these statements. Clearly, anyone who today tells you that LEVERAGE in the gold and silver markets is 100:1, or that I said that in my CFTC testimony, is unable to be educated, a liar, or both.

Your task, as an investor, is to stop listening to anyone who continues to lie to you, or continues to demonstrate that they are ineducable.

Documented Manipulations

The hucksters claim there are documented manipulations. There are none of note.

1. **The CFTC issued two detailed public studies, in 2004 and 2008, saying that not only is there no evidence of a long-term concerted effort to manipulate silver prices, it's investigations uncovered ample evidence that there are no such manipulations.**
2. **The current CFTC investigation is a politically inspired witch hunt, with the professional staff saying they are wasting time and money looking for something that one or two commissioners insist they keep looking for, even if it does not exist.**
3. **Ted Butler's allegations initially were aimed at Drexel Burnham, where he worked in the 1980s, and have no basis.**

Documented Manipulations, continued

4. Andrew Maguire most likely is a fraud.

- No one in the bullion market says they ever met him, heard of him, or knows him.
- He clearly did not work at J. Aron and Goldman Sachs as GATA and King World News say he did.
- He has refused to provide any evidence that he ever worked in the bullion market to every major journalistic outlet that has asked to interview him about his allegations.
- The CFTC has declined to confirm he actually contacted it prior to the February 2010 trade he claims he warned it about.
- When asked what they did to verify his authenticity before trotting him out to the public in 2010, GATA said it had no obligation to check if he was real since it was ‘not a journalistic outlet.’



The Discrepancy Between Paper and Physical Silver Prices

There is no discrepancy between paper and physical silver prices.

The premium paid for physical silver in 1,000 ounce good delivery bars at present is around 18 cents per ounce, or 0.5%, above the Comex or London price of silver. That's a transaction cost, not a discrepancy.

If you want a 100-ounce bar, the price difference is around 67 cents, or 2.0%, due to the extra fabrication and handling costs of the smaller bars. That is not a discrepancy.

If you are paying much more than these sorts of premia for your physical metal over spot quotes on Comex or in London, you are over-paying at the retail level and need to find a new retail supplier of metal.

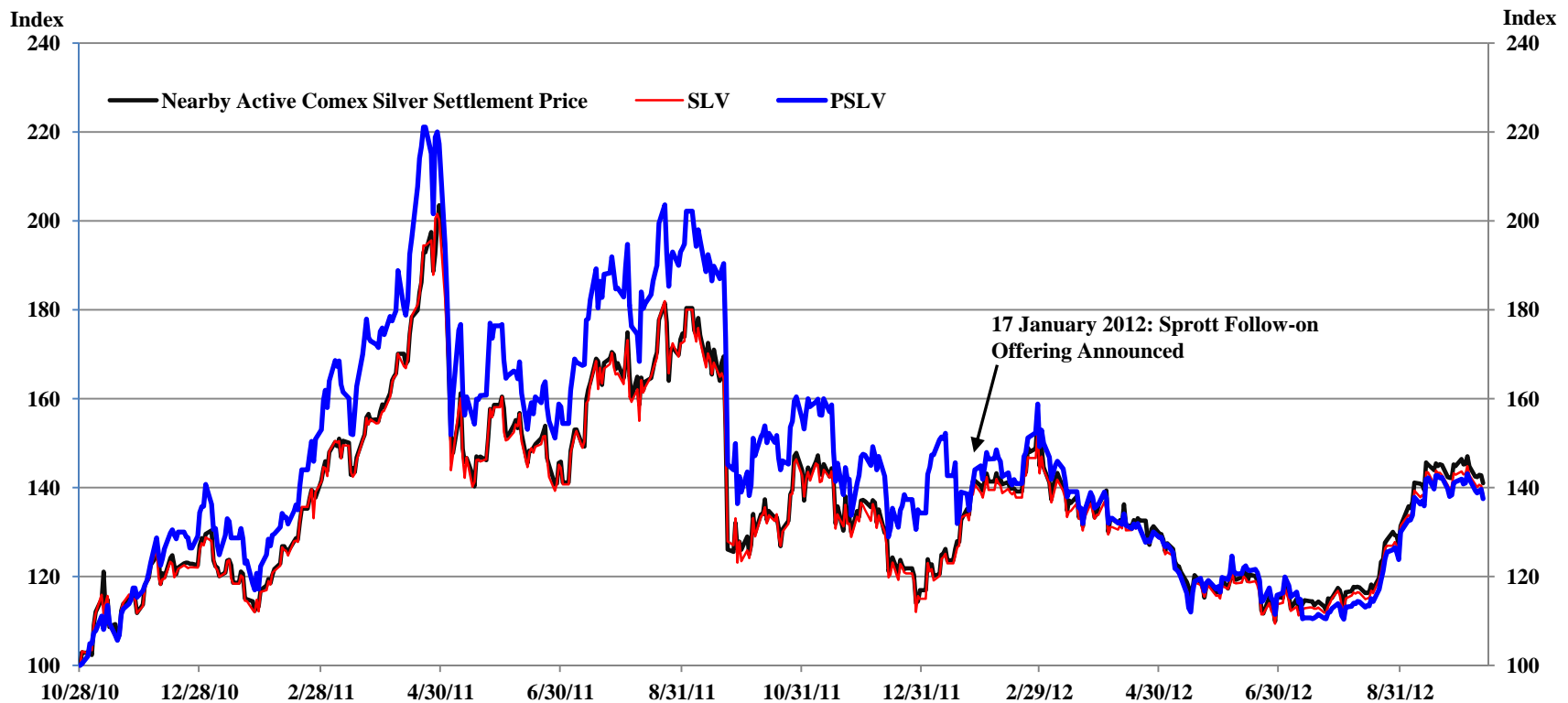
CPM Group can recommend some reputable dealers: We introduce our clients to them regularly, and we have no commercial compensation for such referrals. Our clients pay us to work for them, and we do.

The Real Silver Price Discrepancy

The only real price discrepancy I have seen in recent years in silver prices has been between the real silver market (physical and paper) and the Sprott silver fund. Sprott charged 9% more than it (should have) paid for the silver it bought for investors between October 2010 and January 2012.

Silver, iShares' SLV ETF and Sprott's PSLV Silver Trust Daily Indexed Prices

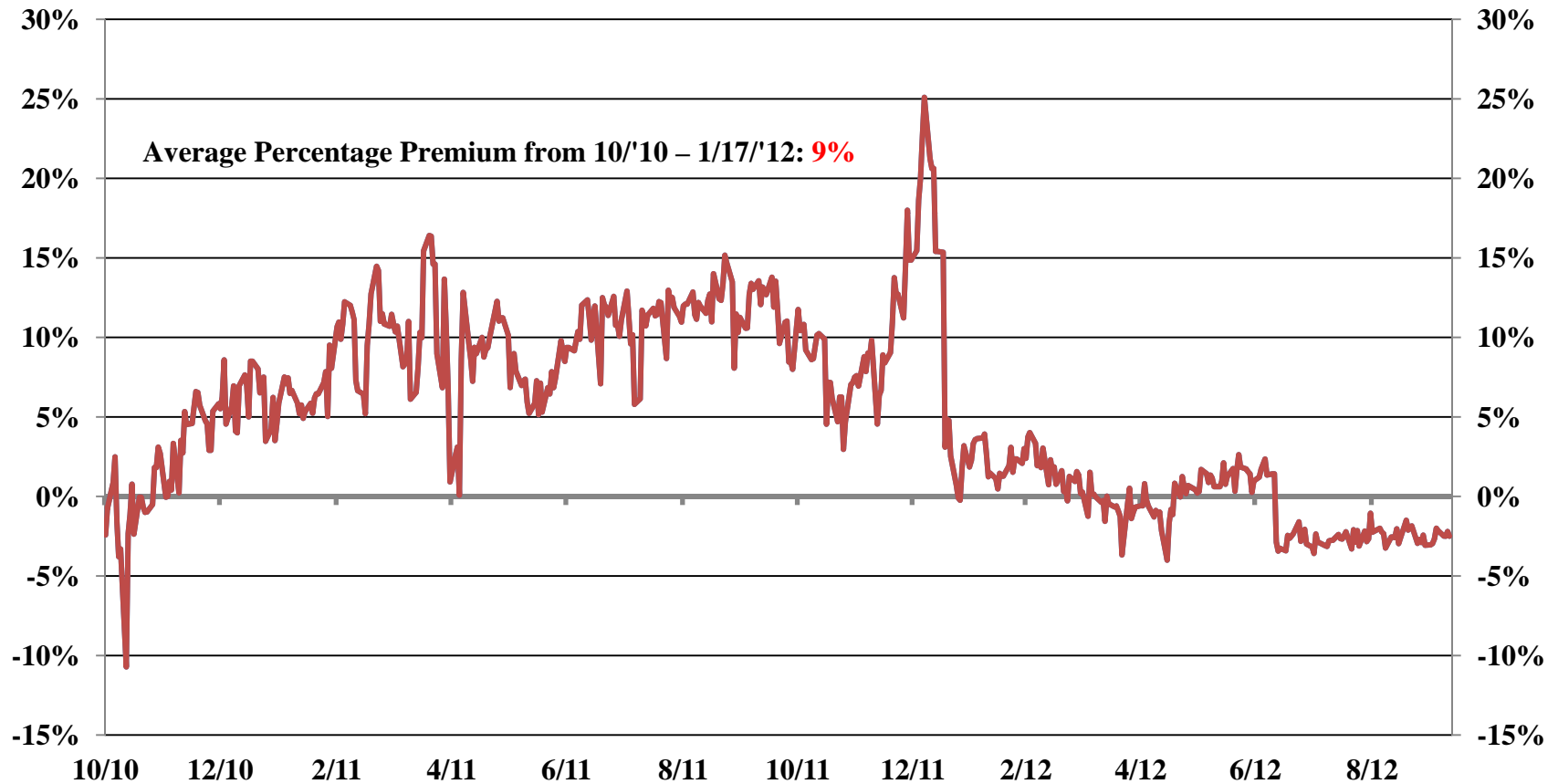
28 October 2010=100, Through 12 October 2012



PSLV Premium Over Physical Silver

Percentage Premium Percentage Change Between Comex Silver and Spratt Silver

28 October 2010 through 12 October 2012



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Hyperbole

On March 3, 2012 King World News quoted a prominent promoter of silver investment products who has been a regular proponent of the theory that silver prices will sky-rocket... any day now... and silver conspiracy theories:

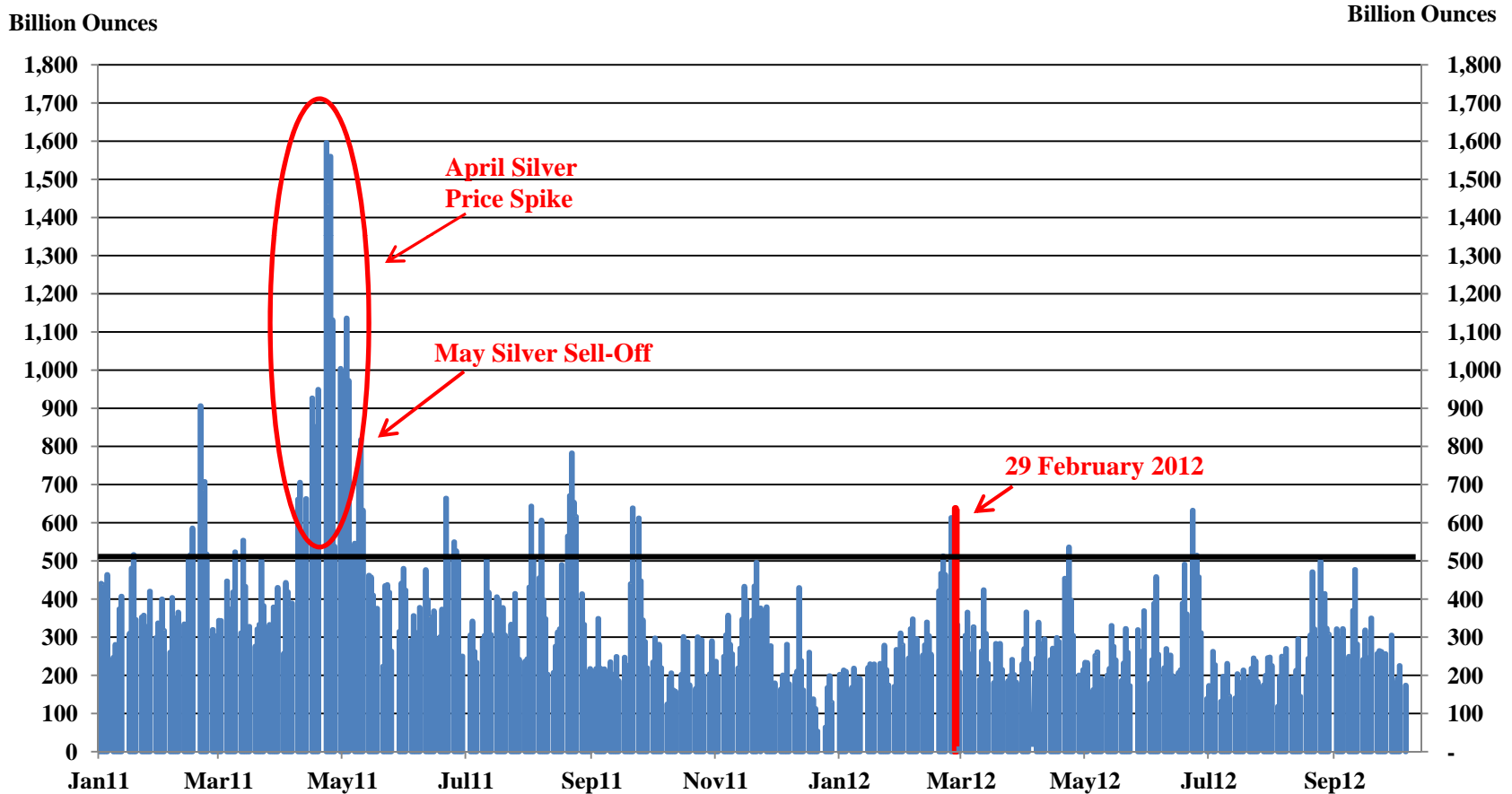
“It’s stunning to me that on a day like February 29th we traded 500 million ounces of silver.”

KWN said the marketer told it that such an enormous volume represented a “takedown in the metals.”



What's So Stunning?

Daily Trading Volume of Comex Silver Futures
January 2011 Through 8 October 2012



Margin Changes and Prices

The purpose is to assure the financial integrity of the market and its participants. Exchanges raise margins in order to assure that shorts and longs can meet their financial obligations to buy or sell given commodities as prices rise and fall, or become more or less volatile.

The purpose of margin changes is not to stop prices rising or falling, or to quell volatility.

This is why there has never been a default on a U.S. regulated futures exchange that has a clearing house assuring that those trading on it have the capacity to meet their obligations.

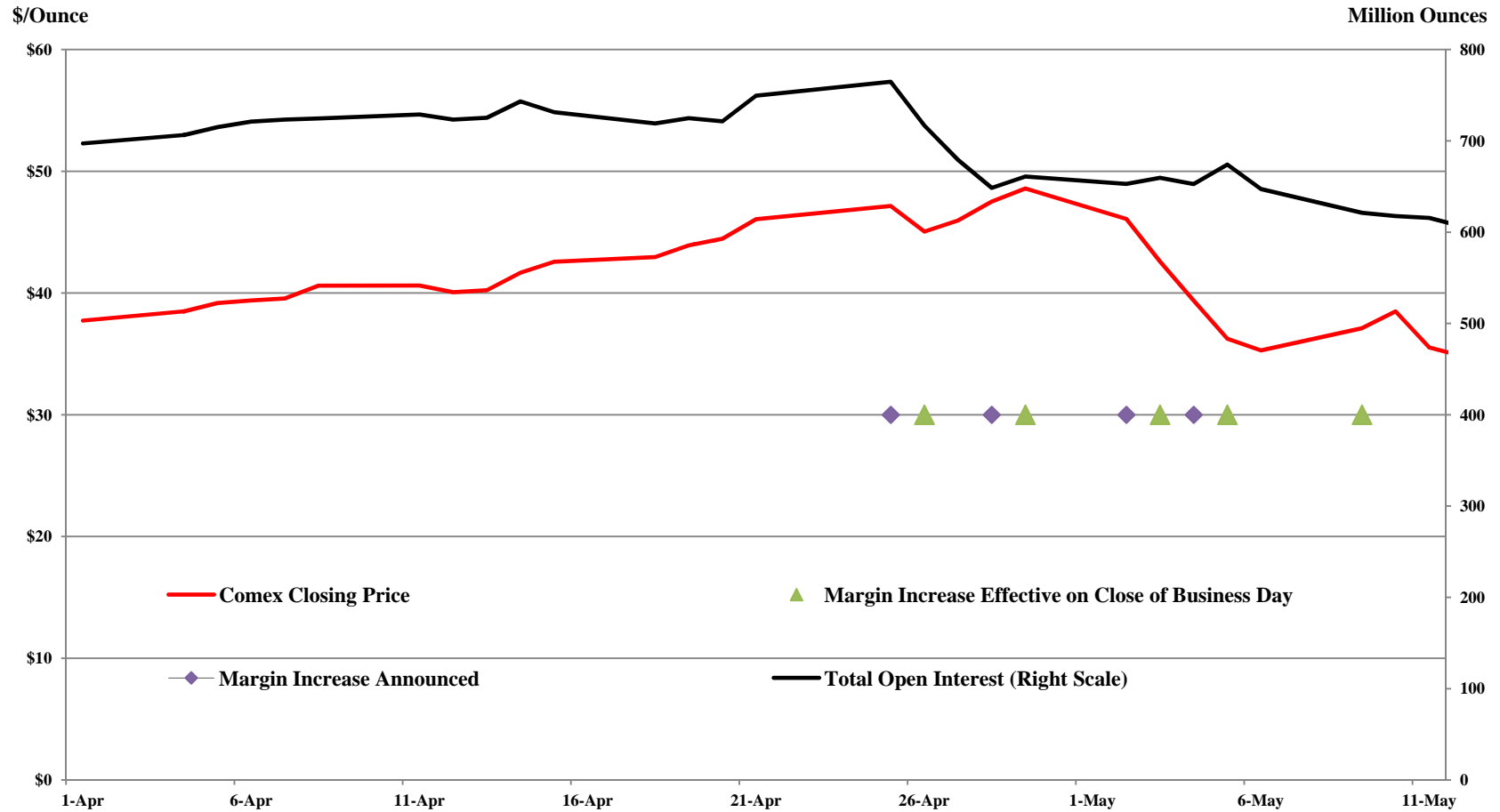
This is why in late 2008 there was a flood of short hedges put in place in Comex gold and silver – because the Comex Clearinghouse still was a liquid, financially stable market while the credit availability and liquidity had dried up in the OTC market. As investors dumped their gold and silver in a race to cash, the banks that were buying it back had to turn to Comex to hedge those physical market and OTC purchases, since the OTC market's liquidity had disappeared.

There is no statistical relationship between changes in margin levels and price changes.

Changes in margin are far more common than silver and gold conspiracy liars try to make you believe they are.

Comex Margin Changes Did Not Cause Price Decline

Silver Closing Prices, Total Open Interest, Comex Margin Increases
 April 2011 Through 13 May 2011



One Day's Changes in CME Margins Across Futures Contracts

CME Group Margin Changes Effective *CLOSE* of Business on 9/24/12

	Previous Initial	Previous Maintenance	New Initial	New Maintenance
Emini Nasdaq 100 (NQ) -spec	\$2500	\$2000	\$2200	\$2000
Emini Nasdaq 100 (NQ) -hdg	\$2000	\$2000	\$2000	\$2000
Emini Nikkei 225 Yen denominated (ENY) - spec	55,000	44,000	48,400	44,000
Emini Nikkei 225 Yen denominated (ENY) - hedge	44,000	44,000	44,000	44,000
Emini S&P 500 (SP) – spec	\$4375	\$3500	\$3850	\$3500
Emini S&P 500 (SP) – hedge	\$3500	\$3500	\$3500	\$3500
Mini Dow (YM) – spec	\$3125	\$2500	\$2750	\$2500
Mini Dow (YM) – hedge	\$2500	\$2500	\$2500	\$2500
NASDAQ 100 (ND) – spec	\$12,500	\$10,000	\$10,999	\$10,000
NASDAQ 100 (ND) – hedge	\$10,000	\$10,000	\$10,000	\$10,000
S&P 500 (SP) – spec	\$21,875	\$17,500	\$19,249	\$17,500
S&P 500 (SP) – hedge	\$17,500	\$17,500	\$17,500	\$17,500
NIKKEI 225 (NK) – spec	\$2813	\$2250	\$2475	\$2250
NIKKEI 225 (NK) – hedge	\$2250	\$2250	\$2250	\$2250
Ethanol (EH) – spec mnth 2+	\$4050	\$3000	\$4455	\$3300
Ethanol (EH)– hdg mnth 2+	\$3000	\$3000	\$3300	\$3300
NYMEX Ethanol (QE) – spec months 1-8+	\$4950	\$4500	\$5500	\$5000
NYMEX Ethanol (QE) – hedge months 1-8+	\$4500	\$4500	\$5000	\$5000

Other Rubbish

- **Forensic Evidence**

- **References to comments from government leaders in the 1960s when gold and silver still were part of our fixed-rate monetary system as somehow being relevant to government policy since 1971.**

Concluding Remarks: Imperfect Markets

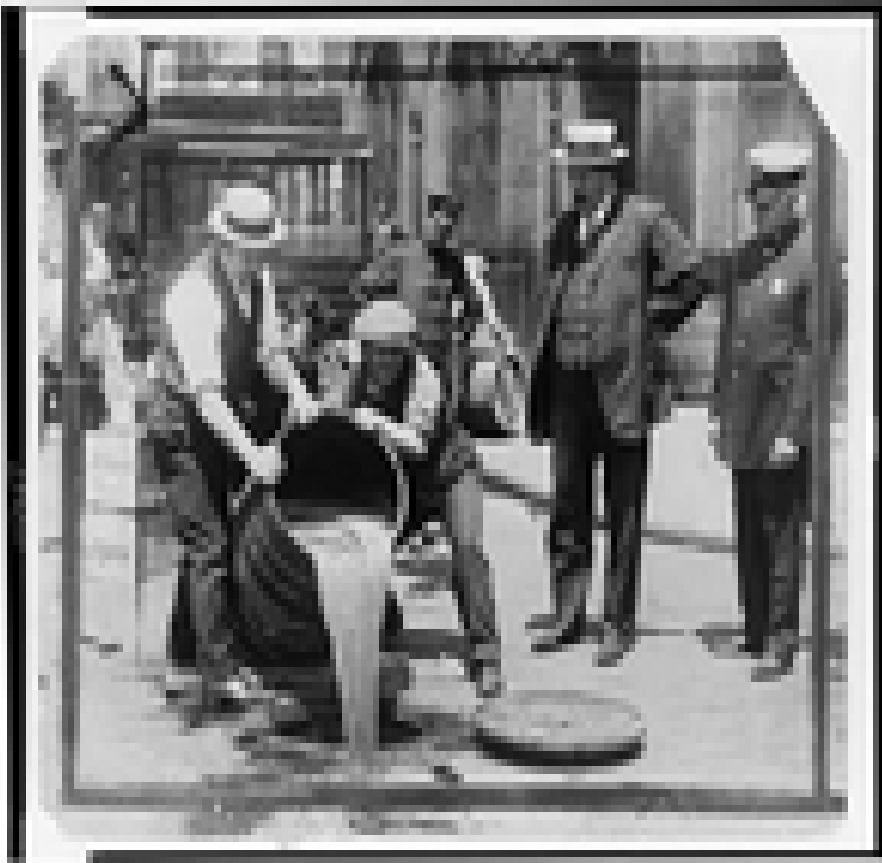
Do not misunderstand or misrepresent what I am saying.

I have spent my career criticizing the markets and banks for legitimate short-comings. But there are no big conspiracies, only incompetence and greediness.

I have been advocating intelligent and proper regulation of OTC derivatives since 1986.

Prohibition versus Gold “Confiscation”

Contrast the different approaches government took toward Prohibition of alcohol under the Republican Hoover and the voluntary gold “confiscation” under FDR.



There are no photographs of police, federal marshals, or Treasury agents looking through homes, offices, or bank safety deposit boxes for gold **because there were no such searches or physical confiscations.**

The gold turn-in was entirely “voluntary,” with no policing to enforce it, and most of the gold actually was turned in during the month PRIOR to the order to turn in the gold.

Thank You, and You Are Invited...

Challenge Your Assumptions

You are all cordially invited to join CPM Group's reception this evening after the Silver Baron's Banquet, with coffee and dessert, in the Flowerfield Room. We will be there to discuss silver, as well as gold and the broader economy, and to answer any questions.

Visit Erica, Matt and me at our Table here at the Silver Summit

