

# Debunking the Precious Metals Fear Mongering Campaign

By Erik Townsend – April 16, 2010

## ***Executive Summary***

- There is good reason to question JP Morgan's concentrated short position in COMEX silver futures, and to investigate allegations that JPM used it to manipulate the silver market.
- The Gold Anti-Trust Action Committee (GATA) has handled this matter poorly by focusing its attention on baseless, unproven conspiracy allegations pertaining to the London gold market (outside CFTC's jurisdiction). GATA should instead focus on the compelling evidence that is directly material to the still-pending CFTC investigation.
- Jeffrey Christian's testimony at the CFTC Hearing has been taken completely out of context, and allegations that it reveals a scandal or revelation are baseless.
- Despite the best efforts of some responsible journalists including Jim Puplava, others including Tyler Durden (ZeroHedge) and Eric King (King World News) have contributed to the misinformation campaign by promulgating GATA's baseless allegations.
- There are legitimate reasons to be concerned about the ratio of "paper gold" to real gold, but they are not the reasons GATA has made so much undue fuss about. They also have nothing to do with *leverage*.
- Investors should focus on understanding the inherent risks and limitations of their precious metals investment vehicles. The most popular are reviewed and contrasted.

## ***Introduction***

Ever since the U.S. *Commodities Futures Trading Commission* (CFTC) [hearing](#) on position limits in the COMEX precious metals futures markets on March 25<sup>th</sup>, the blogosphere has been on fire with talk of conspiracy, scandal and fraud. Eric King of [King World News](#) has run a series of audio interviews in which he repeatedly suggests that what's being uncovered may actually be "The greatest fraud in history". Meanwhile, the Gold Anti-Trust Action Committee (GATA) has made numerous allegations pertaining to fraud on the London Bullion Market Association (LBMA), which is arguably the largest marketplace in the world for sale and purchase of physical gold bullion. The story gets even more juicy – at the CFTC hearing, GATA brought forth information from a whistleblower named Andrew Maguire. Then, just days after this disclosure, Mr. Maguire and his wife were victims of a hit-and run car accident in London. In what read like a 1960s spy novel, the blogosphere immediately went wild with allegations that JP Morgan, an investment bank that trades in the precious metals market, had arranged to have Mr. Maguire assassinated for revealing their devilish plot to manipulate precious metals markets! To the casual observer, all this smacks of exactly what Eric King has called it: The greatest fraud in history!

But to the not-so-casual observer, i.e. someone who actually understands metals markets and how they function, it's quickly apparent that most of the hype circulating in the blogosphere is utter nonsense. In fact, there appears to this author to be far more misinformation than accurate information circulating on the Internet with regard to this subject. Sadly, GATA, the watchdog organization that is urgently needed by investors to keep an eye on wrongdoing in these markets, appears to be more at fault than any other party for distorting the facts and making baseless allegations. While that organization's chartered mission is certainly noble, the organization's execution of that mission warrants some harsh criticism. This article will review the history of what has transpired, and will debunk the false information that has been spreading rampantly in the coverage of these events by otherwise-respectable websites including [ZeroHedge](#) and [King World News](#).

### ***Ted Butler's Discovery of the J.P. Morgan Silver Short***

A logical place to begin this story is with the work of Ted Butler, a precious metals analyst and newsletter author whose firm [Butler Research](#) specializes in analysis of the government-published *Commitment of Traders* reports. These reports reveal the positions of large commercial traders who are required to disclose that information publicly on a weekly basis. Ted's analysis of the COT reports is quite involved and unfortunately, the full details of his work are only available to his paid newsletter subscribers. For the purposes of this discussion, all you need to know is that from the official COT reports, Ted concluded that Bear Sterns was holding a very large concentrated short position in COMEX Silver futures, and that J.P. Morgan has since taken over this position. According to Ted, JP Morgan continued to hold the concentrated silver short at least until just before the recent CFTC hearing. For readers not familiar with commodities trading terminology, a *short* position means that J.P. Morgan was selling silver futures contracts.

Roughly speaking, there are four reasons that someone might sell Silver futures contracts. The first three are entirely legitimate:

1. They had a bunch of physical silver bullion they wanted to sell by actually delivering the metal.
2. They needed to hedge another transaction in another market. For example, a silver miner might want to lock in a price as soon as the mining operation is complete, hedging exposure to price changes while a 3<sup>rd</sup> party smelter reduces the mined ore to finished product, a process that can take weeks.
3. Their opinion was that silver was over-priced, and they wanted to make a speculative bet that the price would go down, yielding them a profit when they eventually closed their position by buying back those same contracts at a lower price after ***other fundamental factors in the market*** caused the price to decline.

The fourth possibility is both illegal and unethical:

4. By aggressively selling a very large number of contracts, they endeavored to intentionally ***manipulate the market to push the price down***, by creating enough downward price momentum through their own selling to induce technical funds, which trade on price momentum indicators, to begin selling. An illegal price manipulation scheme would involve first selling enough

contracts to move the price lower, intentionally “tricking” other investors into selling because of a perception the market was crashing for unrelated reasons, then buying back the contracts they initially sold, but at much lower prices. They would thus derive a profit from illegally tricking other market participants into selling on a bogus price signal.

To summarize Ted Butler’s research, he is convinced that in J.P. Morgan’s case, #4 applies. He makes a case for why he believes this to be true, and points out that JP Morgan’s concentrated short position is so large that it exceeds the annual global production of actual silver bullion by all of the silver mines in the world combined. Up until the CFTC hearing, Butler was working from circumstantial evidence only. It wasn’t until Andrew Maguire arrived on the scene that evidence would be presented apparently corroborating Butler’s suspicions. More on that later.

Meanwhile, in the conspiracy-minded reaches of the blogosphere, several commentators alleged that JP Morgan was actually acting as an agent for the Federal Reserve Bank of New York, perpetrating an evil government conspiracy to manipulate the price of precious metals downward. That’s actually not as far fetched as it sounds. While at Harvard, Larry Summers wrote a paper describing how the Gold market could be manipulated downward in order to protect the U.S. Treasury Market. So for someone to speculate that the U.S. Government was behind this price manipulation, first using Bear Sterns and now J.P.Morgan as their agents to carry out this illegal dirty deed... As conspiracy theories go, this one really isn’t all that implausible. But even so, the fact remains that this is pure speculation. I’m not aware of any conclusive evidence that the NY Fed is behind whatever J.P. Morgan is up to. Thankfully, Ted Butler has shown the good judgment to leave the conspiracy theories out of his work, and focuses instead on the contention that JP Morgan has a large concentrated short position and appears to be using it to perpetrate an illegal market manipulation.

### ***The Long-Awaited CFTC Hearing on COMEX Position Limits***

The CFTC held a public hearing on position limits in the COMEX Precious Metals futures market on March 25, 2010. GATA was invited to testify at the hearing. In a dramatic moment, GATA head Bill Murphy testified that GATA had been contacted by a “whistleblower” named Andrew Maguire. Murphy went on to testify that Maguire, an ex-Goldman Sachs metals trader based in London, had first-hand personal information that J.P. Morgan traders in London had boasted to him that they were manipulating the silver market through a large concentrated short position, and that they had made extraordinary profits by way of illegal market manipulation tactics.

Later in the hearing, Jeffrey Christian of CPM Group testified. Mr. Christian’s testimony was factual and, frankly, unremarkable. But it would later be taken completely out of context by GATA and used as the basis for some absurd allegations also made by GATA and echoed by Maguire in King World News interviews that would ensue. More on that later in this article.

## ***Andrew Maguire and Wife Victims of Suspicious Hit & Run Accident***

Just days after the CFTC hearing, news broke that Andrew Maguire (the London-based metals trader and whistleblower) had been involved in a hit and run car accident, where another driver struck first his car and then another vehicle, before fleeing and eventually being apprehended by police. To my knowledge, no information has been released pertaining to the identity or possible motive of the hit and run driver. Whether this was a freak coincidence or a conscious malicious act remains unclear. But of course the blogosphere immediately jumped to the conclusion that J.P. Morgan had hired a hit man to assassinate Maguire for exposing their scam. The rather obvious fact that J.P. Morgan would only be adding credibility to Maguire's claims against them was of course never mentioned in the numerous conspiracy theory-laden blog posts that ensued.

## ***The King World News Fear Mongering Campaign Begins!***

Before continuing, I should acknowledge that I chose the above heading text with some reluctance, but it needs to be said. For the record, I think Eric King of King World News is a really good guy who means well, and I have always respected his interview style. But in this case I think he has been suckered into trusting the market knowledge of several interviewees, particularly the representatives from GATA, who have been woefully derelict in their duty to their own stated mission. So before going on, I want to be clear that I excuse Mr. King for his error of putting faith in the knowledge of the wrong people. I offer no such compassion to Bill Murphy or Adrian Douglas of GATA, whose conduct in these interviews has been nothing short of outrageous.

## **The Maguire and Douglas Interview**

Eric King's [first interview was with Andrew Maguire](#) (the London-based metals trader and whistle-blower) and GATA's Adrian Douglas. Eric King opened the interview by intimating that the subject at hand was "The Greatest Fraud in History", a line he would go on to repeat many times in subsequent interviews. Maguire explained that the metals trading world is a small one, and that everyone knows what goes on. He says that he "knew for quite some time" that there was "heavy manipulation", "particularly in the silver market". Maguire then alleges that after taking over Bear Sterns' short position, J.P.Morgan "took down" the silver price from upwards of \$20/oz to below \$9/oz, more than halving the price of the metal through what Maguire implies was a conscious manipulation strategy perpetrated by J.P. Morgan. Maguire then describes how despite knowing how to profit from what was going on, he felt a moral obligation to contact Bart Chilton at CFTC to explain how J.P. Morgan was manipulating the COMEX silver market. Eric King then describes how Maguire sent e-mails to CFTC, *in advance*, explaining how a manipulation was to unfold on February 5, 2010, and explaining exactly what would happen and when. On the whole, Maguire's comments seemed, so far, to reveal a credible disclosure of compelling evidence about illegal market manipulation that J.P. Morgan was apparently guilty of perpetrating.

Next came GATA's Adrian Douglas. Forget about rational, intelligent commentary from this point forward. Douglas immediately began talking about the London Bullion Market Association (LBMA), the London-based precious metals market. One

might have hoped that Eric King would intervene and point out that the hearing in question was held by CFTC, an American regulator with no jurisdiction over LBMA. No such luck. Now don't get me wrong here - fraud on the LBMA is a critically important issue that affects all metals markets worldwide, but as we'll see, GATA's allegations about LBMA are baseless. Next, King asks the leading question, "Isn't this the greatest fraud in history?" Douglas takes the bait, and makes some comments about how *The London Market* is enormous in size. King never picks up on the obvious jurisdictional issue.

Eric King then baits Maguire with another leading question, inviting him to agree that what's at stake is in fact a matter of national security. But here's where it gets interesting. Maguire runs with it and goes on to describe Douglas' "questioning" of Jeff Christian. I watched the CFTC hearing and didn't get the impression that Douglas, as a witness giving testimony, had the authority to question anyone. But that aside, Maguire goes on to emphasize Christian's "admission" (Maguire's words) that the "leverage" (again, Maguire's words, not Christian's) was 100:1. Maguire then goes on to describe his astonishment about this "admission", saying that in his "wildest dreams" he imagined that perhaps there was a 10:1 or 20:1 leverage, but he never envisioned anything close to 100:1 *leverage*.

**Whoa. Full stop.** This is where Maguire blew his credibility completely, both by using the term *leverage* incorrectly and by completely distorting Mr. Christian's testimony. In my opinion, if Maguire were really a trader with the experience he claims to have, he would have already known the approximate ratio of paper to physical trades. No "wild dreaming" is required, and Christian was only stating well-known information. And to be certain, he certainly would know better than to misuse the term *leverage*. Before continuing with the subject of Mr. Maguire, we need to take a side trip to understand what Christian really said and what *leverage* really means.

### **Jeff Christian's Now-Famous 100:1 Comment**

If you take the KWN interviews at face value, you'll be shocked to learn that someone named Jeffrey Christian has "admitted" to "what could be the largest fraud in history", by acknowledging that the London precious metals markets are "leveraged" 100:1, apparently diluting the value of investors' holdings by 99%, and exposing a fraud that would make Bernie Madoff look like a boy scout. And Christian "admits" to all of it. That Bastard!!! Let's hang him by his short hairs and beat him to death with blunt instruments! Oh wait, before doing that, perhaps we should dispense with the nonsensical distortions being put forth by Eric King, GATA, and Andrew Maguire, and instead focus on what Mr. Christian *really said* in the CFTC hearing. I admit that focusing on fact rather than hyperbole has fallen out of vogue, but please bear with me...

Here's what Mr. Christian actually said. You can find this testimony in the [official video recording](#) of the hearing, beginning at 05:32:05:

*One of the things that the people who criticize the bullion banks and talk about this undue, uh, large positions, don't understand, is the nature of the large positions in the physical market. And we don't help it. The CFTC, when it did its most recent report on Silver, uh, used the term which we use in the market: "The Physical Market". And we use that term, as did the*

***CFTC in that report, to talk about the OTC market: Forwards, OTC options, physical metal and everything else. And people will say – and you’ve heard it today: “There’s not that much physical metal out there.” There isn’t! But in “The physical market” as the market uses that term, there’s much more metal than that. There’s a hundred times what there is.***

What Mr. Christian says here is entirely accurate, and should come as no surprise. Physical gold bullion isn’t the only thing traded in the marketplace, and he goes out of his way to explain that he thinks it unfortunate that so many people incorrectly use the words “physical market” to refer collectively to not only the market for purchase and sale of physical gold bullion, but also the market for exchange of *derivative contracts* such as forwards and options. His point is that when you include the derivative contracts, far more “paper gold” is traded than there is actual physical bullion. The same is true for most commodities. Far more crude oil futures contracts are traded than there are physical barrels of crude oil, and far more copper contracts are traded than there is physical copper to be delivered. Speculators who make economic bets on prices of precious metals or other commodities going up or down routinely enter these contracts with the intention of cash-settling the contract before its delivery date. In most cases, both parties (buyer and seller of the contract) get in with the full intention of getting back out through cash settlement for any change in price of the underlying commodity. Neither “buyer” nor “seller” ever intended to buy or sell anything in such cases.

For example, as I glance at my own futures account screen in another window as I type this, I see that I am “short” well over a million dollars worth of S&P 500 stock index futures, and also short about the same dollar amount of 30-year U.S. Treasury bonds, with each contract calling for June delivery of the underlying commodity. Guess what? I don’t have the shares, nor do I have the bonds that I “sold” through the futures market. No, I’m not up to anything sleazy here. I didn’t actually sell anything. What I did was to enter a contract that requires that I do one of **two** things: My first option is to close these positions before the *first notice date* listed on the contract description, and settle up for any gain or loss on the price of the underlying commodity in cash. That’s what most futures traders do: Make directional bets that wind up being settled in cash. Most of the people on the other side of these trades don’t actually intend to buy any bonds or S&P shares either. They too intend to exit the positions before the deadline, settling any gain or loss on their wager in cash. Upwards of 95% of futures contracts are closed and settled in cash prior to delivery.

All that Jeffrey Christian said was that when you consider all the guys like me making speculative bets in the paper markets, there are a lot more bets being made on the price of an ounce of gold than there are ounces of gold. What he doesn’t say explicitly (because it should be obvious) is that there’s nothing wrong with that. Everyone who participates in these markets is supposed to understand the difference between buying paper that represents an economic bet on the price of an underlying commodity and buying the commodity itself. For example, I’m also presently “long” several thousand barrels of crude oil futures. I don’t have a big tank to put the oil in, and a lot of the guys selling those contracts don’t have any oil to deliver either. But perhaps most importantly, I don’t have enough cash to buy all that oil even if they did! This is because oil futures are a leveraged instrument (explained in the next section). This

point will be critical later on when we debunk GATA's absurd claims of the "greatest fraud in history".

There is a legitimate issue here, but it's not a new one: For decades, many people have questioned whether it makes sense to combine speculative "paper markets" with the market for real physical commodities. Warren Buffet famously called derivatives "financial weapons of mass destruction", because they allow speculators to make large bets without actually buying or selling the stuff they are betting on. When the underlying prices change dramatically and unexpectedly, massive financial losses can result, potentially posing a systemic risk to the financial system. But this is a very old debate, and it's not in any way, shape or form specific or unique to precious metals.

Personally, I question whether there is really as much as 100 times as many ounces of "paper gold" as there is physical gold, and I wonder if Mr. Christian was exaggerating. But in any case, the point is simply that like all commodities, there are more paper bets on the price of gold and silver than there are transactions where the metal itself changes hands. Nothing should come as a surprise here, yet this comment seems to have become the central "evidence" of a scandal that GATA and Eric King would like us to believe represent "the largest fraud in history"!

### **What "Leverage" Really Means**

A key aspect to understanding GATA and Maguire's allegations involves the incorrect application of the word *leverage*. So let's take a moment to review how that term is commonly used in finance, and how it's being applied here.

*Leverage* pertains to buying (or selling) more of something than you have money to buy outright. For example, a speculator can "buy" paper contracts that represent a million dollars worth of crude oil without actually having a million dollars to invest. They might (for example) only have \$200,000 of actual account equity, but they are still allowed to buy *paper contracts* representing a million dollars worth of crude oil. In that case, the investor is said to be "leveraged 5 to 1". The reason this is possible is that in most cases, speculators in the market have no intention of actually taking delivery of the oil. They are betting on the price going up or down by some relatively small percentage. As long as the investor puts up enough collateral to cover any sudden price change, he can settle any profit or loss in cash when he closes out the position. This feature of "leverage" is the principal reason that most speculative investors use derivative investments in the first place, and is true (with slightly different mechanics) for both futures and options. The maximum degree of leverage for trading futures contracts is controlled by the rules of the futures exchange. For COMEX gold and silver contracts, it works out to a maximum leverage ratio of less than 10 to 1.

When you hear about derivatives like options and futures being "dangerous" investment vehicles, it's precisely because of the high leverage ratios they make possible. At 10:1 leverage, if the price of the underlying commodity goes down by only 10%, a long investor would lose everything and a short investor would double his money. The ability to make really big bets when you only have a fraction of the cash being wagered is dangerous business. A big part of the reason that the 2008 market crash was so dramatic was that many large hedge funds were highly leveraged, meaning that they were using hundreds of millions of dollars of their clients' money

to make wagers in the billions. When prices started moving beyond the range that these funds originally presumed would fall in the range of realistic possibility, many were forced to *de-lever* simultaneously, resulting in massive sales of securities pushing prices ever lower. This is why Warren Buffet has called derivatives financial WMDs.

So as the term is normally used, *leverage* refers to the ratio of investor's equity to the notional value of assets. But suddenly Mr. Maguire and his friends at GATA are using the term in a completely different way. They are now alleging that Mr. Christian's testimony amounts to, in the words of Eric King, "an extraordinary admission" of "100:1 leverage in the LBMA Physical market". Of course if you go back and re-read Mr. Christian's testimony you'll see that he goes out of his way to clarify that he's talking about the paper market, not just the market for true physical bullion.

A true *leverage ratio* of 100:1 would be a very scary thing. It would mean that for every dollar traded, there's only one penny of actual capital, and therefore a 1% price change could wipe out any long position. But Mr. Christian's statement had nothing to do with *leverage*, at least not in the sense that term is conventionally used in finance. All he said is that for every transaction where real metal changes hands, there are 99 more where the parties are trading in paper contracts, and choosing to settle in cash. Those 99 other trades may very well be leveraged transactions, but the leverage involved will be limited by the exchanges and will generally not exceed 10:1.

### **COMEX vs. LBMA**

I've used the example of a COMEX futures contract to explain the concept of leverage because, after all, the matter at hand is the CFTC's still-pending public comment period pertaining to COMEX futures position limits. In researching this article, some reviewers of the first draft alleged that it was bogus to use an analysis of the futures market to debunk GATA's arguments, because GATA is talking about "The Physical Market", i.e. the LBMA. But recall that what GATA is alleging pertains to an "admission" supposedly made by Jeffrey Christian. And Christian's testimony (above) clearly pertains to LBMA *derivatives*, not to physical bullion transactions on the LBMA.

Similar to COMEX Futures contracts, LBMA Forwards are not binding obligations to buy or sell anything. They offer the parties the option to exit the position with cash settlement any time before the maturity date on each contract. In the over the counter (OTC) market, each contract is tailored to the trade. Some trades are for 10,000 ounces. Some are for 40,000 ounces. The maturities vary for contracts as well. That a party to one of these principal-to-principal contracts closes out the position prior to the maturity or delivery date is the most common resolution of London OTC trades. That is not a default nor is it fraud, as GATA has alleged. It's the normal functioning of the market. In fact, it's by far the most common circumstance. The London market association and its members do not make data available on such aspects of their markets, but Jeff Christian's testimony implies that 99% of London forwards are cash-settled and never involve physical delivery. This has nothing to do with leverage!

## **Back to Andrew Maguire and GATA...**

Returning to Eric King's interview of Andrew Maguire, the first red flag pops up when Maguire claims that in "Adrian Douglas' questioning of Christian, where an admission was made that the leverage level was 100 to 1". As noted earlier, Mr. Douglas wasn't questioning Mr. Christian and had no authority to do so. It was CFTC Chairman Gary Gensler who was questioning Christian. And Christian certainly never abused the term *leverage* in the way Maguire does. All he said was that more paper contracts are traded than ounces of physical metal. In fairness to Mr. Maguire, he does go on to clarify what he means by saying "I always figured maybe 10 or 20 to 1, i.e. for every single ounce of gold or silver, there'd be 10 or 20 ounces of paper gold, but I never imagined it would amount to 100 times that!"

I question why Maguire is using the term *leverage* to describe this relationship of physical to paper in the first place. His statement seems to imply that the physical bullion in LBMA vaults somehow serves as collateral for LBMA derivatives, which is not the case. But what Maguire says next just defies reason: "Now here's the problem: For every physical ounce that actually leaves the LBMA and leaves the country, and this is what we are witnessing, leverage works in two ways! Now you're looking at one hundred ounces of paper gold *that has to be somehow accounted for*, for every physical ounce that disappears!" Huh? What is he talking about? Why would an ounce of physical gold being sold and leaving the LBMA have anything to do with the paper contracts also being traded in London, and why in the world should we believe that there is a necessary accounting relationship between the two? Maguire insinuates that this is "a massive problem", but never elaborates. He goes on to talk about futures contracts being rolled over, but says that cannot go on indefinitely. In point of fact, so long as the parties on both sides of those futures contracts are happy settling their bets in cash, there's no reason at all that they can't be rolled over indefinitely. Under such circumstances, whether or not there is physical metal in the vault is irrelevant. It's very hard for me to believe that a metals trader with the experience Maguire claims to have would make such absurd statements, or would misuse the term *leverage* in this way. I'm forced to question whether an intentional disinformation campaign is in play here.

Maguire goes on to insist that a day of reckoning is coming. He never really makes a comprehensible argument to support that assertion, but if we consider GATA's allegations we can infer what he's talking about: The hypothetical scenario where buyers of COMEX futures contracts and LBMA OTC Forwards (aka "Paper gold") suddenly all demand physical delivery of metal, and there isn't enough metal to go around. There's a small amount of justification for that concern, but it's being taken completely out of context here and its significance is grossly misrepresented.

## **The Day of Reckoning Fallacy**

Recall the earlier discussion of leverage, where a speculator can control a million dollars worth of gold bullion even though he doesn't really have a million dollars. The minimum account equity needed to place that trade is called the *initial margin*, but please don't confuse this with borrowing on margin in the stock market; same word, different usage. Most speculators don't have anything close to enough money to actually buy and take delivery of all the contracts they have bought or sold on speculation. That's the whole reason they are trading paper in the first place – to take

advantage of the leverage (using the term correctly now) afforded by the derivatives markets.

It would seem that the scenario GATA and Maguire want us to panic over is the one in which suddenly, all of the buyers of paper futures contracts and OTC Forwards simultaneously and unanimously decide that they want to take delivery of physical metal rather than settling their contracts in cash. As GATA points out with great fanfare, that would require way more physical metal than exists. But it would also require that all those long investors suddenly come up with far more money than they actually have! This is analogous to saying “Mercedes Benz is perpetrating the *largest fraud in history!*” (spoken in Eric King’s dramatic announcer voice of course). If every single American with a driver’s license walked into a Mercedes Dealership tomorrow and said they wanted to buy a Model 500SLK, Mercedes doesn’t have nearly enough cars to deliver! And if you sell something you don’t have, isn’t that **fraud?**” The point is, that would never happen because most of the people with a driver’s license don’t have the money to buy the 500SLK in the first place. Similarly, most of the people who hold long positions in gold and silver futures don’t have the money to actually stand for delivery. And even if they did, many brokers won’t even allow physical delivery transactions! They’re only set up for the far more common case where the parties on both sides of the futures contract prefer to settle in cash.

### **A realistic perspective on the Paper-to-Physical ratio**

So is there a real problem here? To some extent, yes. But it’s nothing new, and it has been well understood for decades. Nothing changed at the CFTC hearing, and there is no fraud or scandal. But since there is a real (and well-known) issue here, let’s explore it.

Suppose that some big geopolitical event (such as a war or more sovereign debt defaults) caused everyone who deals in paper gold to want instead to buy as much physical gold as they could afford. Of course the ratio isn’t really 100:1 any more because most of the 100 contracts were held by leveraged investors with insufficient cash to stand for delivery. But suppose that all of a sudden there was enough demand for physical delivery that twice as much gold was requested for delivery as actually existed in both the COMEX and LBMA vaults. The answer (as Jeff Christian pointed out elsewhere in his testimony) is that this is a well understood risk, and that the markets are designed to accommodate it. Every [competent] futures or OTC Forward trader who buys a long contract understands what they are really buying: It’s a promise to that one of *two* things will happen if they choose to stand for delivery: Either they’ll get to buy the physical commodity assuming some is available, or they’ll get a *cash settlement* equal to the value of the commodity on the delivery date. Those are the rules: You’re never guaranteed that you’ll get to buy the actual metal when you buy a futures contract or OTC forward. If you want to buy the metal, you only get to take delivery if there is enough to go around, and if there isn’t, you’ll get cash instead. If you don’t like those rules, don’t trade in the derivatives markets where they necessarily exist!

Maguire goes on to describe how wealthy Asian investors need only to “realize in their minds” that this is “a naked short”, then they will seize the opportunity to squeeze it! Frankly, I have to wonder whether Maguire’s whole agenda here is to market himself to rich Asians, with the express goal of getting them to believe

precisely that, so that they will employ Maguire to carry out just that trading strategy for them. If only the market really worked the way Maguire implies, they might get much richer by doing so. But it doesn't, and they won't. Perhaps Maguire will make a handsome commission setting up the trade for them. Remember, this guy is ex-Goldman Sachs. Whether his advice will pan out for investors is a whole different matter than whether it will pan out for him.

### **The GATA Round Table Interview**

The next chapter in this saga is Eric King's [GATA Round Table interview](#), where much fuss is made over the fact that shortly after the CFTC meeting, Maguire was involved in a hit and run car accident that is now being portrayed as an assassination attempt. There is never a direct allegation that assassination is what was attempted, but the innuendo clearly seems designed to bring the listener to the conclusion that the evil market manipulators at J.P. Morgan must have retained the services of a hit man, to have Maguire killed for revealing their plot. That's plausible, I suppose. But considering the absurdity of the statements Maguire makes in the previous interview and the fact that he seems (to me) to have a financial incentive in drawing more attention to himself, I can't help but wonder whether Maguire himself would have an incentive to stage his own assassination attempt. The news certainly got a lot of attention when it came out, and one would think that J.P. Morgan would be smart enough **not** to add credibility to Maguire's story by attempting such a stunt. But this is all speculation. The most likely explanation is probably freak coincidence. My point is simply that any number of explanations are possible, and there's no reason to assume this car accident "proves" anything. One would think that GATA would have obtained and publicized the police report. Perhaps they did obtain it and it didn't support their story?

The allegations made by the GATA representatives were nothing short of absurd. "When you try to sell something you don't own, how can that be anything other than fraud?", GATA challenges! The answer is rather simple: When what you're selling is a derivative contract such as an LBMA OTC Forward, fraud only occurs when you violate the terms of that contract. If we're talking about futures or OTC Forwards, the contract is designed to accommodate the fact that in the vast majority of cases no sale of the physical underlying thing was ever intended by either party. That's just how the market works. It's not fraud, but rather, it's the normal and usual operation of the market. No fraud, no conspiracy, and no scandal. Just business as usual. In fact, the vast majority of these contracts are closed this way. If GATA's leadership really lacks such a basic understanding of how derivative markets function, perhaps someone else should be leading their noble cause?

In the interest of space I won't bother with a point-by-point analysis of the roundtable interview, other than to say it was utter nonsense and I was disappointed in Eric King for allowing such absurd statements to go unchallenged.

### **The Harvey and Lenny Organ Interview**

The next KWN interview featured [Harvey and Lenny Organ, and Adrian Douglas of GATA](#). This time, the scandal of the week was allegations of absence of gold in a Canadian bullion bank. Mr. Organ claims to have personally visited Scotia Mocatta's Toronto vault, where he discovered that hardly any gold is actually present, despite the fact that Scotia Mocatta stores bullion for a large number of clients, and charges

storage fees for doing so. Organ alleges that there's really very little gold there, and that this bullion bank is involved in a cover-up where customer demands for physical delivery must be serviced by sending away to Hong Kong for actual product, in a process that he claims took weeks in a case where he demanded delivery of his bullion.

I don't know this person and wasn't there, so I can't comment personally on the veracity of his claims. But they were later strongly refuted by Mr. Nick Barisheff, a much more knowledgeable expert who stands to lose a whole lot more than Mr. Organ if Organ's allegations were actually true. Frankly, the very fact that Mr. Organ is affiliated with the GATA people is a red flag against his credibility in my book. You should listen to both the Organ and Barisheff interviews yourself, and form your own conclusion. My money is on Barisheff.

## ***Putting It All In Perspective***

### **The Botched Opportunity of a Lifetime**

Let's pull this all into perspective now. This all began with a CFTC hearing on position limits in the COMEX futures market. Clearly, the CFTC's jurisdiction is limited to U.S. markets. GATA was in possession of compelling evidence that is directly pertinent to this hearing: First, there's Ted Butler's research alleging that J.P. Morgan has a concentrated short position in the COMEX silver market. Next comes Andrew Maguire's [alleged] first hand account of JP Morgan traders boasting about how this short position was consciously and intentionally used to illegally manipulate the market. Finally, they have Maguire's claims that he had provided CFTC with *advance notice* of one such manipulation, telling them *in advance* exactly what would happen and when, as a JP Morgan-perpetrated manipulation went down on February 5<sup>th</sup>. Wow! That's some damning stuff! Surely, one would expect GATA to stay focused on the matter at hand – position limits on the COMEX futures market. After all, that was the issue that CFTC actually has authority to regulate.

GATA's next moves should have been crystal clear: Keep the focus on the matter at hand. Lobby the CFTC hard and focus on the JP Morgan silver short and Maguire's evidence that it was being used to manipulate the market. In other words, ***Focus on what the regulators actually have authority to regulate, and what you can prove with solid evidence.*** GATA's decision *not* to focus on the matter at hand makes me wonder whether they really have the evidence they claim to have. To my knowledge, nobody other than GATA and Maguire has acknowledged the existence or veracity of Maguire's supposedly damning e-mail messages.

Instead of focusing on the matter at hand, GATA contorted Jeff Christian's testimony completely out of context, and made a big fuss about a scandal on the LBMA that doesn't really exist. As a result, the investment community has become confused about what CFTC actually has jurisdiction to regulate. I am outraged by GATA's botched handling of this opportunity. I do think the markets probably are manipulated, and as a futures trader it costs me real money out of my own pocket every time these manipulations occur. But instead of staying focused on the facts in evidence, GATA decided to go on a tabloid-style scandal rampage, facilitated by a series of fear-mongering interviews on King World News.

## **Voice of Reason #1: Ted Butler**

Ted Butler (the guy who first made the case that JP Morgan had a concentrated short position in silver) never got involved in the conspiracy theories and allegations of fraud and scandal. Instead he stayed focused on the matter at hand. Namely, the issue of position limits for COMEX gold and silver futures contracts.

Mr. Butler penned an excellent article titled [A Time to Act](#), emphasizing to his subscribers the importance of limiting communications to CFTC during the open comment period to the facts in evidence and the matters the CFTC has jurisdiction to regulate, not on wild speculation about what might be going on in another country outside CFTC's jurisdiction. Ted never mentioned GATA by name, but my own impression from his article (and I agree wholeheartedly) was basically "Stop listening to those GATA idiots and their conspiracy theories, and stay focused on what's important and real!" Ted never used those words, but that was the essential message I took away. I was so elated by that message that (with Ted's permission), I promptly cross posted the article on several Internet discussion groups to help spread Ted's important message: Focus on reality, not conspiracy theory!

## **Voice of Reason #2: Jim Puplava**

After the KWN interviews were released, the blogosphere was on fire with talk of scandal and conspiracy. Even Tyler Durden of [ZeroHedge](#), normally an excellent writer, took the bait and added credence to GATA's ludicrous assertions of "100:1 leverage" and "the greatest fraud in history". In apparent reaction to these events, Jim Puplava's [Financial Sense Newshour](#) was inundated with calls from investors who had listened to the KWN interviews. Sadly, most of the callers had taken GATA's bait, posing questions to Jim such as "When you sell something you don't own, how can that be anything other than fraud?" The poor guy sounded like he was quoting the GATA people from the KWN interview verbatim. (Or maybe the caller *was* the GATA guy trying to spread more fear, uncertainty and doubt?)

Jim Puplava is one of the most level-headed, no-nonsense people in the industry. He responded by scheduling two interviews: Jeff Christian (the guy who made the now-infamous 100:1 comment) was invited to come reiterate and explain what he *really* said. The second interview was with Nick Barisheff, who was interviewed to debunk the Organ interview on KWN. Barisheff said that he had personally visited the Scotia Mocatta vaults at least 10 times, and that the gold had always been there. He went on to explain that "the vault" actually comprises several different secure rooms, and speculated that perhaps Mr. Organ had only visited one room and mistook it for the whole vault. I know people who've had direct dealings with Mr. Barisheff, and he comes highly respected. I'll take his word over Organ's, but you can draw your own conclusions.

My hat is off to Jim Puplava. The investment community was clearly very confused by all the inaccurate nonsense GATA had circulated about LBMA when they should have been heeding Ted Butler's advice and staying focused on the business at hand. As I listened to the interviews, I felt relieved, thinking to myself, "Finally, all this hype and nonsense in the blogosphere will die down and people will get back in touch with reality..." Well, no such luck. Tyler Durden of ZeroHedge fame immediately penned an article titled [Jeffrey Christian Has a Second Chance To Disprove The Gold Ponzi Scheme, Fails](#). Durden rips apart Christian's interview on [FinancialSense](#), and

makes the baseless and nonsensical assertion that the 100:1 business somehow amounts to the derivatives market having “applied fractional reserve psychology to your [gold] holdings”. Duden’s arguments are categorically without basis in fact.

In the reader comments area under Durden’s article, Jim Puplava is lambasted and labeled a “PumpMonkey”. The words used there with reference to Mr. Christian cannot be quoted in polite company. It would seem that the ZeroHedge community is hell bent on perceiving a conspiracy to exist where none does. A couple of sensible commentators tried to point out that Mr. Christian’s testimony was entirely factual and no cause for concern, but they were quickly silenced with personal insults and ad hominem attacks. ZeroHedge readers are a reality-resistant community, it would seem.

Mr. Durden seems to enjoy tearing apart other authors’ articles and assaulting their arguments, often with abrasive language. I suppose that this article might become the target of another such attack by Mr. Durden. As I contemplate that possibility, Clint Eastwood’s famous line from the film *Dirty Harry* comes immediately to mind: *Go ahead, punk. Make my day.*

### **Separating The Issues**

It’s essential to understand that there are really two separate and distinct issues here, which have unfortunately been confused by GATA:

1. The use of large, concentrated positions in the futures market to manipulate the price of precious metals, particularly silver
2. The allegation that the ratio of “paper gold” to real gold (or paper to real silver for that matter) undermines investors’ best interests.

Let’s do what GATA should have done, and keep these separate issues separate. I’ll address each of them separately below.

### **Are Gold and Silver Prices Being Manipulated With Concentrated Futures Positions?**

Ted Butler’s research alleges the presence of a very large concentrated short position in the COMEX futures market, held by J.P. Morgan. I’m inclined to believe that this much is true. Is it really being used to manipulate the market? Based on Ted Butler’s research alone, I would say *maybe*. Ted’s argument is, essentially, *what other purpose could there be for a short position larger than the annual global production of silver?* I can’t think of any plausible alternatives, but this argument still lacks certainty. The fact that neither Ted Butler nor I can think of such a reason certainly speaks toward the *possibility* that JP Morgan is manipulating the market, but doesn’t prove anything conclusively.

Andrew Maguire’s “evidence”, taken at face value, *assuming it credibly exists as represented by Maguire and GATA*, seems to provide the needed missing link to clearly establish that the JPM short is a tool of market manipulation. Given Maguire’s performance in the KWN interview, I find his motives highly suspicious and am not inclined to believe his “evidence” until I’ve seen hard data to back up what he says. It may well be there, but all I’ve heard so far is a lot of talk. And frankly, a lot of that talk appears to me to be designed to entice wealthy investors to retain Mr. Maguire to

conduct that short squeeze trade he conveniently outlined in his KWN interview. He may be completely credible, but until I see more hard evidence, I'm in the "jury is still out with red flags apparent" camp on Maguire's story.

One thing is for certain: There is enough evidence to warrant a thorough investigation of what JP Morgan is up to, and CFTC should be petitioned aggressively to carry out just such an investigation. I can't say for sure that JP Morgan is guilty of market manipulation, but I think there's more than ample probable cause to warrant an intensive investigation.

### **Is there a real problem with the paper-to-physical ratio or not?**

Based on how sharply I've criticized GATA for distorting the facts, you might be expecting me to say there's no problem here. But nothing could be further from the truth. There are definitely real issues here, but they don't legitimize GATA and Eric King's allegations of "the greatest fraud in history", and there is no grand conspiracy. The problem is simply that derivative markets are complex, and most people don't understand how they work. As a result, I believe that a lot of people think they own physical gold when in reality they are invested in "paper gold". To my mind, that's the real issue: Many "gold investors" don't fully understand what, exactly, they have invested in. But let's stay the course and examine this whole "paper to physical ratio" thing a little more closely.

When someone "buys" or "sells" in the futures or LBMA OTC forward markets, they really aren't buying or selling anything. They are entering a contract that entitles them to buy or sell that thing, should they ever want to, at some time in the future. Most futures and forwards market participants never want to consummate an actual sale. They're there to place an economic bet on the price of something going up or down. The word "bet" is perhaps inappropriate because many participants are hedging another business activity as opposed to gambling on a speculative opinion about which way a price will move. But in either case, they are entering a contract that will allow them to derive a cash profit (or loss) depending on which way the price of the underlying commodity goes during the time they keep the position open. Many futures brokers including my own *only allow* this sort of cash-settled trading. If I were to attempt to keep a long position open (to accept physical delivery) my broker would automatically close the position the day before it became eligible for physical delivery assignment. My point here is that the scenario GATA keeps raising – *What if all the gold (or silver) longs suddenly demanded physical delivery?* - isn't even realistic. First of all, most of us got into these position with a 10% - 15% margin, and don't have the money to stand for delivery. Even if we wanted to, our brokers would tell many of us to get lost because they don't want to deal with physical delivery situations. So the premise is bogus from the outset.

But there is a realistic scenario here: What if all the people who invest in "paper gold" realized that there's not really enough gold for everyone who thinks they own gold to go around, and what if they all simultaneously decided to take whatever steps they needed to take in order to get physical delivery of bullion? Now that's a more realistic scenario. If they're doing it in the futures market they'd have to find a broker that permits taking physical delivery, which many don't. But some do. Then they'd have to pay not just the 10% - 15% initial margin required to open a position, but the full 100% cost of the bullion at their contract entry price. Again, remember that the vast

majority of investors represented by the 100:1 ratio GATA has made so much fuss over don't have the money to do this. But some do, and there's really not that much "extra" gold and silver in the COMEX warehouse, so the risk of a *run on the warehouse*, so to speak, is real.

The most plausible scenarios would occur relatively gradually. After years and years of most metals contracts being settled in cash, it's pretty unlikely that all of a sudden, wham-o, everybody stands for delivery during one specific contract month. So what would happen is that month after month, more longs would take delivery than there were shorts making delivery. The COMEX warehouse inventory (a publicly disclosed statistic) would decline. That unto itself would cause the price to move higher. In "normal times", the increasing price would reduce the number of buyers taking delivery and entice more sellers to make delivery, in a self-correcting system.

But these are hardly normal times, and a sudden event like a nuclear strike on Iran or an abrupt escalation of the sovereign debt crisis could very possibly induce a large-scale retreat from paper assets to physical precious metals. In that scenario, the COMEX warehouse inventory could very possibly be depleted in a single month. But what's important to understand is that this is a known risk that futures and OTC forward traders are expected to understand before they make their first trade. It is not a revelation, nor is it a scandal, nor is it a validation of GATA's nonsensical claims. It's just a fact of life in the derivatives market: When you buy something and stand for physical delivery, it's possible that the other guy won't deliver and the warehouse won't have enough inventory to cover for him. It's a remote possibility, but it's still possible. When it happens, the buyer gets the cash price of whatever he bought at time of contract expiration. If you want the physical stuff, you have to take that cash and go buy it yourself, either on the spot market or in a future delivery month in the futures market.

There is an entirely plausible "investor gets screwed" scenario here: Suppose (for example) that you buy June 2010 Gold futures, and stand for physical delivery. But then in May a nuclear war begins, and everyone wants gold. You will get back not only the money you paid, but also any price appreciation that occurred between when you entered the contract and the delivery date. But you won't get any gold. Meanwhile, in the few days that pass between your contract delivery date and when you get the money back, the price of gold quadruples because of the war. GATA would like you to believe this is "fraudulent default", but in reality it's just an inherent risk of buying anything through the derivative market. It's part of the game – one of the stated rules you're supposed to understand going in.

The bottom line is that having possession of physical gold or silver bullion is much better than having a futures contract that entitles you to buy that bullion at a set price *provided that the counterparty doesn't default*. That should be obvious, and it's really not a scandal or travesty of justice. Just part of how the market works.

### ***The REAL Issue: Understanding What You Own!***

It occurs to me that the real problem that underlies all this hype and hoopla about the precious metals markets is that many investors are confused about the various investment vehicles available to them, and/or don't understand the real risks inherent to the instruments they've already invested through. Perhaps if we can address that

need, it will be easier to ignore all the hype GATA has been spreading about bogus scandals and conspiracy theories. So let's run down your options, starting with the safest.

### **Take delivery of Physical Bullion Yourself**

The advantage here is that you know first hand that you really have the bullion, because you receive it personally. There are some drawbacks, however. First, you need to make sure you're getting real gold and not a counterfeit product. You can have the bullion professionally assayed (a fancy word for having an expert make sure it's real), but that costs money. When you want to sell that gold some day, you're going to have to prove to the buyer that it's real, and that may mean paying to have it assayed again at your expense. Next you have to figure out where to store it. Keeping any significant amount of bullion in your home is a really bad idea. In a crisis, bad guys will come kill you and your family to get your gold. Very bad idea. All the other options cost money and have inherent risks. When the U.S. Government confiscated privately held gold in 1933, all Safe Deposit boxes were sealed and could not be opened unless an IRS agent was present. So if you are concerned about confiscation, bank safe deposit boxes might not be the best bet. A private vault (Brinks and other reputable firms offer this service) is an option, but they're expensive.

There's a lot to be said for having a small amount of silver in coin form stored in a safe place. You might need it in a crisis to barter for food or transportation to the place where you've stored the rest of your bullion. But given all the hassles involved in finding a place to store significant quantities of bullion, I wonder if an allocated bullion vault account would be a better choice than taking delivery yourself and having to deal with storage. If the bullion vault sells you the gold and maintains physical custody, they will know it's real and you'll be able to sell it back to them later without paying to have it assayed again.

There's one more important downside to taking physical delivery yourself: When you try to buy bullion, you're very likely to be the victim of a bait-and-switch scheme where a "rare coin consultant" attempts to mislead you with false information about confiscation risk in order to persuade you to buy a high mark-up product you don't want or need. The defense to this is simple: If you hear the word "numismatic", hang up the phone immediately and never talk to that guy again. He's trying to rip you off.

### **ALLOCATED Bullion Bank Account**

An allocated account with a bullion bank means your gold is sold to you **in physical bars that you own**, which are then stored in the bullion bank's vault. You should expect to pay 1% - 2% of the purchase price, per annum, for having the metal stored for you. The advantage of an allocated account is that your bullion is yours, and isn't pooled with anyone else's. You should receive a certificate showing serial numbers of your bars, purity to three decimal places, and weight to three decimal places. In my opinion, provided that you are dealing with a reputable bullion bank, this is the safest and most sensible option. You should go in person to inspect your gold and make sure the serial numbers match up. For an account of any significant size, the bullion bank shouldn't balk at this request; if they do you should ask yourself (and them) why they're not willing to let you see your own property.

There is always the risk that an unscrupulous bullion bank could sell you and ten other guys the same gold, and just tell each of you it's yours. This is exactly what Mr. Organ seems to be accusing Scotia Mocatta of in his interview with Eric King. I'm not buying his story and think he's confused about the facts, but you can form your own opinion. The only way I know of to mitigate that risk completely is to take physical delivery yourself and make your own storage arrangements. But you still run the risk of having your gold stolen by whomever you rent vault space from.

### **UNALLOCATED Bullion Bank Account**

The proposition here is that you can save all those pesky storage fees by pooling your gold with other investors' gold. The sales pitch will usually imply that the bullion bank always has all the gold and there is never any double counting or "fractional reserve" schemes. But in an unallocated account, it's possible that the bullion bank may *hypothesize* your bullion, meaning that they rent it out to someone else in the same way that stocks in a margin account can be lent out to short sellers. In normal economic times, this isn't a problem because the bullion bank will be able to produce all the gold when needed. But you probably didn't buy gold in the first place to cover the "normal economic times" scenario. If you are tempted by an unallocated account for the sake of saving storage fees, be sure to do adequate due diligence work to make sure you know how much gold really backs up your claim.

Laws will vary from one jurisdiction to another, but my understanding is that in most cases, an unallocated account holder is an unsecured creditor if it should ever be revealed that the gold is not there. You can sue them in bankruptcy court and share whatever assets can be recovered with other claimants. In contrast, in an allocated account you **own** specific serial-numbered bars, and if they're not there when you come calling for them, you can prosecute the bullion banker in criminal court for stealing your property. I'm no legal expert and the laws vary depending on jurisdiction. But I still like the odds on allocated accounts much better.

### **Gold and Silver ETFs**

These investment vehicles track the price of the metals, and are *supposed* to actually own the physical bullion. The problem is that with the case of GLD in particular, detractors have alleged they own the physical gold through a complex network of custodians and sub-custodians. A whole lot has been written about the potential risks of there being more than one claim on each physical ounce of gold in these funds, and alleging that the custodian system is so complicated that fraud would be hard to find and prove. I personally don't have enough information to comment authoritatively. They probably have all the gold. Probably. But for me personally, I'd feel more comfortable absorbing the storage fees inherent to an allocated bullion bank account.

### **The "No, Seriously, We really have the Gold!" ETF**

This new class of investment (notably Eric Sprott's PHYS gold fund) seems to have arisen in reaction to the controversy about whether or not GLD really owns all the gold it claims to, and whether or not there is any validity to the allegations of multiple claims. The concept is the same as with GLD, except that all the gold is kept in one place and the fund differentiates itself by making clearer representations about what's really there. Also, in the case of PHYS, even small investors have the option of redeeming their shares for physical bullion when they want it. This is a brand new trend and I have no first-hand experience with these new funds.

## Precious Metals Funds

These mutual funds that invest in precious metals. They may own physical bullion, or they may invest in “paper gold” products including futures and options, or they may buy mining shares. Read the prospectus carefully and make sure you know what you’re buying.

## Futures and Options Contracts

These are *derivative instruments*, meaning what you get is a promise from somebody else that they will sell you something at a set price, provided that they don’t back out. In the case of listed instruments, if the counterparty backs out the exchange covers for them, so in theory you’re covered. But in a systemic crisis, the exchange itself could default. These instruments offer leverage and trading efficiency benefits that make them ideal for short-term trading and leveraged speculation strategies, but you’re not buying precious metals when you invest in these “paper gold” products. You’re entering a contract with a counterparty who may or may not keep their end of the bargain. Stay away from these unless you’re absolutely sure you know what you’re doing!

If you invest in other instruments such as mutual funds or ETFs, be alert to the possibility that they may be investing in futures contracts. That means that in a panic situation where futures longs are forced to accept cash settlement, the funds that invest through futures could take a big loss in contrast to other funds actually holding physical bullion. Make sure you know whether you own futures or options *either directly or indirectly*, and if you do, be sure you understand the inherent risks.

## Conclusions

I find it shocking that GATA has so badly botched the opportunity to stay focused on the compelling evidence they allegedly have in hand pertaining to COMEX futures, the market the CFTC actually has authority to regulate. The JP Morgan silver short appears to be real, and very possibly a real scam. But instead of focusing their attention on those issues, **now**, while CFTC is directly considering position limits, GATA instead insists upon spending their efforts spreading baseless propaganda about scandals that don’t really exist in the LBMA, a market system that is completely outside the jurisdiction of CFTC. Eric King has meanwhile perfected his ability to say the words “greatest fraud in history” with a ring in his voice that a sports announcer would be challenged to match. Sadly, Mr. King has failed to do his job as a journalist and check his sources or ask his interview guests challenging questions to test the veracity of their arguments.

What’s important now is the JP Morgan silver futures short, and the still-open CFTC Comment Period. Readers who want to help the cause would do well to read Ted Butler’s [A Time to Act](#) memo, and follow the directions therein to get their comments to CFTC before April 26<sup>th</sup>. Ignore GATA’s fear mongering campaign, and encourage Eric King to return to his past pattern of excellent journalism. If you’re a GATA member, for heaven’s sake hold the leadership accountable for their atrocious handling of this entire affair.