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U.S. CORRESPONDENT: MOCATTA METALS CORPORATION  
CLEARING MEMBER OF LEADING COMMODITY EXCHANGES

September 8, 1971

### N.Y. SILVER

Spot	141.10
December '71	143.70
Comex Warehouse Stocks	117,394,669 + 861,149

The vicious liquidation cycle is proceeding apace as silver prices continue to drop under the pressure of the huge open interest built up over previous months.

We have been suggesting that the lows of this move may lie in the 138.00 area for Spot, 141.00 for December '71. New York opened 300-500 lower today reflecting the London market which came under heavy stop loss selling yesterday and early today. Prices held temporarily 450 points down with a token rally of 150 points being the best the market could muster. Failure to make more headway brought on more selling ending 740-840 down on the day on 5520 contracts. December at 143.70 is now only 270 points away from our original target.

Since self-feeding liquidation has now become the main bearish factor (silver is a relatively 'news-free' market) one may well ask himself what can stop the slide. The first thing that comes to our mind is normal technical developments such as short covering, bargain hunting on the part of long term investors, trade re-stocking.

A little understood factor may provide this market with a significant cushion at or slightly below these levels: hedge lifting on the part of large coin dealers. For the past few years, coin dealers in the U.S. have hedged their silver coin inventories by selling forward Comex silver. This operation is believed to have involved 100 million ounces, roughly 10,000 Comex contracts. To the extent that silver coins work their way lower (see U.S. Silver Coins Futures) and hedging becomes unnecessary, these coin dealers will begin lifting their Comex hedges by covering their short positions. This is especially so as prices move below \$1.39 Spot, for their long position (Silver Coins) cease to decline and a profit is realized on their short sales which continue to decline. In short, a potential demand for 10,000 contracts exists in a market that has averaged 2500 contracts daily, a 4.0-1 ratio. Those cognizant of the stock market rule of thumb that says that a 2-1 short interest ratio is bullish cannot escape the implications of the present situation. Cover short positions and await further developments.

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# THINKing Big

## Computers Are Calling Turns in Commodities, Currencies

By DANA L. THOMAS

PSYCHOLOGY, as most traders know, has a great deal to do with the rise and fall of stock prices. Hence, it will come as no surprise that Dr. Henry Jarecki, professor of psychiatry, does very well in Wall Street. His sideline, though, is not doping stocks, but rather international markets for gold and silver. And he relies less on Freudian theory (which he distrusts anyway) than on cybernetics — specifically a computer. Two years ago, it occurred to him that, by proper use of that tool, he could outmatch the shrewdest competitor equipped with only pencil or desk-top calculator. Dealing in gold and silver bullion, via different currencies, for delivery all over the world, is essentially a matter of international arbitrage requiring very fine calculation of rate deviations. Dr. Jarecki set up an American affiliate of the centuries-old London bullion dealer, Mocatta & Goldsmid, and went into business. As long as the U.S. Treasury kept its foot on the price of gold and major world currencies were held to parities fixed under the terms of the Bretton Woods agreement, the monetary world was an essentially stable one. Dr. Jarecki had an idea, though, that the international monetary system was about to erode. He had the computer programmed to change ground quickly in case of some form of dollar devaluation and went on the alert.

### Markets in Turmoil

The dam broke on Sunday evening, August 15, when President Nixon announced that he was ending the convertibility of gold and, in effect, setting the dollar afloat. Suddenly every currency in the world had the props knocked from under it, while gold became for the U.S. Treasury an industrial commodity instead of money, as silver had previously. Markets, where they were able to open at all, were in a state of turmoil. Dr. Jarecki's firm, however, was ready and willing to deal. For almost a week, Mocatta was virtually the only firm in the world having the guts to make a market in silver, while accepting shaky U.S. currency; the computer enabled it to gauge the market accurately and protect itself against unpredictable dollar fluctuations. Its volume of trading, naturally, boomed. And the nice thing about it was that the computer did most of the work. Tom Peterffy, who heads the research department, says, only half in jest, that as soon as the electronic brain is hooked up to its voice box so it can answer the phone (the technology is available), the staff will be able to go on permanent vacation.

Dr. Jarecki's installation is only one example of the growing use of computers in Wall Street. As noted in a previous article (Barron's, August 30), institutional traders and investment advisers are using it extensively to analyze stock market trends. It is also helping to overcome the back-office paperwork difficulties which, last year, led to the failure of many Wall Street houses and severe financial difficulties for others. It also is vastly speeding up communications in the securities industry, particularly in the over-the-counter market, easing the burdens of statisticians and taking some of the risk out of commodities trading.

September 6, 1971

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WE SPECIALIZE IN SILVER.