Silver's Slide Riles Bulls and Bears

By TATYANA SHUMSKY

The silver market is rife with fervent bulls and bears. And the metal's recent plunge toward $26 has both sides even more steamed than usual.

That's the traditional baseline that bulls say will trigger a sharp rally higher. The bears, though, say silver is destined to fall further and plumb multyyear lows.

Silver has bounced between $26 and the mid-to-high forties for the past 18 months. Now that it is grazing the low end of that range—on Thursday, prices for July delivery dropped 2.6% to $26.247 a troy ounce—some investors are betting the pattern will repeat.

Jeffrey Sica, who oversees a billion dollars at Sica Wealth Management, said silver's "reliable fluctuation from the high twenties to the low forties" is part of the attraction for him because silver has traversed that range several times over the past year.

"The volatility of silver has been so pronounced that it's had a level of consistency," said Mr. Sica, whose fund has between 6% and 7% invested in silver. Mr. Sica said he expects silver prices to reach $40 a troy ounce by the end of the year, though he is willing to wait longer for the rally to come.

Silver also is likely to get a boost from growing expectations that central banks world-wide will keep pumping money into their economies, said Tom Winnill, portfolio manager at Midas Perpetual Portfolio. Silver, like gold, tends to benefit when investors anticipate such moves because the threat of inflation makes the dollar a less attractive safe haven. Also, such policies are aimed at boosting growth and this could spur industrial demand for the metal.

There are signs that other investors already are pouring money into this market. Exchange-traded funds backed by physical silver have increased their bullion holdings. When investors buy shares in silver-backed ETFs, the funds go out and purchase physical silver on the open market. Barclays PLC says that silver ETFs added 293 metric tons of the precious metal to their vaults this month, and are set to record their highest inflows since September.

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But some strategists say the return to $26 is a negative sign. Traders who study technical indicators say silver's recent losses have pushed prices below their 200-day, 100-day and 30-day moving averages, all indications more selling is on the way.

"Silver could be in for an ugly ride here," said Charles Nedoss, senior market strategist with Kingsview Financial, adding that silver may retreat to $23.20 a troy ounce amid the downdraft.

Moreover, if silver prices break through the $26 floor it will trigger a flood of automatic sell orders, put in place by investors trying to protect themselves against further losses. This can slash as much as $2 off the price of silver, said Frank McGhee, head precious metals dealer with Integrated Brokerage Services.

Whichever way silver moves, it is likely to be dramatic, investors say. Silver is notoriously volatile and typically moves at a faster pace than other commodities such as gold. Silver prices have, on average, moved up and down at double the pace of gold prices over the past two years, according to TD Securities.

On Sept. 22, when fears of a Greek default gripped global markets, silver prices slumped 9.6%, outpacing gold's losses of 3.7% and a 3.2% decline in the Standard & Poor's 500-stock index. Similarly, silver prices surged 6.6%, outpacing gold's 3.4% rally and the 1.9% gain in the S&P500, when the Federal Reserve announced its second bond buying effort on Nov. 3, 2010.

This time, however, there is a risk that there will be no new stimulus. Steve Matthews, chief investment officer at Flintlock Capital Asset Management, a New York-based hedge fund that invests in commodities, said he expects commodity prices to head lower in the absence of robust central bank stimulus measures. He is staying on the sidelines until the Fed acts, he said.

Other investors say that even without a Fed move, silver's volatility and existing monetary easing efforts globally will send prices surging in the long run.

"We think there's a long term risk of inflation," said Michael Cuggino, who manages $17 billion at the San Francisco-based Pacific Heights Asset Management and holds silver in his Permanent Portfolio fund. Mr. Cuggino says he sees silver as a long-term investment, and has been adding to his fund's silver positions in the past few months.

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