

# Silver's bear turn not over yet after 20 percent dive

Wed, May 4 2011

By [Carole Vaporean](#)

NEW YORK (Reuters) - Silver prices, down 20 percent from peaks hit last week, have abruptly collapsed into bear market territory, and chartists say further losses are likely before investors are lured back in.

While for now deemed a correction rather than a return to the languishing market that characterized silver in the 1990s, the speed of the collapse after its parabolic rise this year has shocked even long-term traders accustomed to its volatility, and at times has rattled adjacent markets.

For those who study charts for price trends, silver looks unlikely to quickly revisit the all-time high of \$49.51 an ounce it touched on April 28, and will probably slide much further before finding its footing.

"Given the way it's trading as a pain trade, and had gone somewhat exponential on the way up, just as we had done then, there's every chance you could see something similar again," said CitiFX chief technical strategist Tom Fitzpatrick.

He said the only reference available to chart its current path was the dramatic slide off the previous all-time high in 1980, which took it down from \$50 down to \$30 in pretty much a straight line.

Once support breaks at the 50-day moving average near \$38.50, Fitzpatrick said, silver lacks additional support before the 200-day moving average between \$28 and \$31.

"There could possibly be a short-term pause, but this really looks like something that could melt down even further."

Silver remained below a psychological threshold of \$40 an ounce in late Wednesday trade, with prices changing hands around \$39.40 an ounce by 4:30 p.m. EDT (2130 GMT).

Sellers fell as low as \$38.95, last seen on April 5.

"I would let it fall. The real thing that has been moving silver prices since it went over \$25 an ounce, in our judgment, is mostly speculative demand," said Tom Winmill, portfolio manager of the Midas Fund. Winmill stuck by his projection of \$35 an ounce at year end.

The global average cost of production for silver mines is just under \$15 an ounce, meaning current levels carry a lot of speculative froth, he said.

Trading in the iShares Silver Fund (SLV) was heavy, with shares falling 5.73 percent to \$38.27.

Overall option volume on the fund was 2.3 times greater than average daily levels with about 717,000 calls and 837,000 puts traded, according to options analytics firm Trade Alert.

Over the last few sessions, TD Ameritrade chief derivatives strategist Joe Kinahan in Chicago said he has seen many more players trading in the iShares Silver Trust and in silver options, because of silver's recent parabolic upward move.

Once the dust settles, however, others think silver prices will present an attractive buying opportunity that may lead higher than any levels seen to date.

"Where the bottom lies, only time will tell. But, we are in the midst of a correction that presents a buying opportunity for sure," said Joseph Foster, portfolio manager, at Van Eck International Investors Gold Fund in New York.

The same drivers that have lifted gold -- economic uncertainty, geopolitical instability, the Federal Reserve's printing presses -- are present for silver, even if they seem to have had a dramatically outsized effect.

"The potential for investment demand for silver is almost unlimited."

(Additional reporting by [Doris Frankel](#) in Chicago; Editing by [David Gregorio](#))