



Bet Like George Soros and Cash in on a Silver Rally

Description

There are growing signs that now is the time for investors to take the plunge and make a bet on silver. Already the top end of town is making some big bets on silver with Wall Street investment managers and institutional investors leading the charge.

Billionaire investor George Soros has already made some big bets on precious metals and silver miners in particular. He invested \$9.4 million in precious metals streamer **Silver Wheaton** (TSX: SLW)(NYSE: SLW) and \$10.7 million on miner **Pan American Silver** (TSX: PAA)(Nasdaq: PAAS).

Why will silver rally?

A range of indicators are pointing out that silver is undervalued particularly in comparison to gold, which has rallied this year, while silver prices have remained relatively flat. This becomes apparent when taking a closer look at the gold-to-silver ratio, which measures how many ounces of silver buy an ounce of gold.

At the height of the gold bull market, 43 ounces of silver bought one ounce of gold, but since then the ratio has widened, now needing 63 ounces of silver. Silver has failed to keep pace with gold despite the historically close correlation between the prices of the two precious metals.

When coupled with signs of diminishing supply as well as growing demand for use in industrial processes and the manufacture of jewelry, it is clear a sustained rally is imminent. But the key question for investors is how do they cash in on this rally?

Exchange traded funds offer a liquid alternative to physical silver

Investors could consider exchange-traded funds as a means of gaining exposure to firmer silver prices without the issues that come with investing in the physical metal. The **iShares Silver Trust** (NYSE: SLV) is among the largest ETFs with \$6.7 billion under management, and has shot up 4% for the year-to-date as investment inflows grow.

But the ease of investing and greater liquidity comes at a price, as investors must pay a management

fee when investing in an ETF, which in the case of the iShares Silver Trust is an expense ratio of 0.50%.

A better way to invest is to look at precious metal streaming companies like Silver Wheaton or the silver miners like Pan American.

It's clear why these alternatives are a favourite with Soros

Silver Wheaton is fast shaping up as a clear favourite among investors and it's easy to see why Soros has made a big bet on the company. As a precious metals streaming company it essentially lends funds to silver and gold miners in return for the right to purchase silver at a fixed price, which is typically well below the spot market rate.

This does not require it to make the massive capital expenditures required to develop mines and maintain their productive capacity. It's also not required to incur the same costs to produce silver, therefore maintaining a lower cost structure, generating higher margins and profitability. This leaves the company well positioned to cash in on firmer silver prices and deliver value for investors.

Another of Soros's big bets, Pan American Silver, appears undervalued and well positioned to cash in on firmer silver prices. Despite its share price spiking a healthy 29% for the year-to-date it is still attractively priced with an enterprise-value of 10 times EBITDA.

This is lower than other industry participants attracting institutional interest, including **First Majestic Silver** ([TSX: FR](#))([NYSE: AG](#)), with an EV of 14 times EBITDA, and Silver Wheaton's 22 times.

The company, unlike many of its peers, didn't slash its dividend as silver prices plummeted, and continues to reward investors with a healthy yield of 3.4%.

Finally, Pan American is well positioned to cash in on rising silver prices with it continuing to boost precious metals production. In the first quarter of 2014, silver production grew a healthy 5% compared to first quarter 2013 and gold production spiked a massive 43% for the same period.

The company also continues to control costs with all-in sustaining costs for the first quarter 2014 down a massive 20% compared to the equivalent quarter in the previous year to \$15.54, and are expected to fall further. This tight cost control and low all-in sustaining costs allow Pan American to generate a solid margin per ounce of silver produced.

Finally, the company's La Colorada Expansion Project remains on track, as do the various expansion projects underway at its Dolores mine, all of which bodes well for continuing growth in precious metals production.

It is easy to see why Soros and Wall Street are investing heavily in precious metals and silver in particular, with a massive rally more than likely imminent. Both Silver Wheaton and Pan American offer investors solid opportunities to cash in on this rally and give them leveraged exposure to the price of silver, offering greater potential returns than an ETF, which only tracks its price.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:AG (First Majestic Silver)
2. NYSE:PAAS (Pan American Silver)
3. TSX:FR (First Majestic Silver)
4. TSX:WPM (Wheaton Precious Metals Corp.)

Category

1. Investing

Date

2025/08/23

Date Created

2014/07/22

Author

mattsmith

default watermark

default watermark