



Buy Silver Wheaton Now to Cash In on the Silver Rally or Regret It Later

Description

While I am quite bullish on the [prospects for gold](#) — during this time of growing global economic uncertainty and geopolitical crises creating further market volatility — I am more bullish on the [prospects for silver](#), primarily because it appears significantly undervalued in comparison to gold. After all, the gold-to-silver ratio is widening and supply-side constraints are set to cause demand to outstrip supply for at least this year and the next.

While I have been quite bullish on the prospects of silver miners and **Pan American Silver Corp.** (TSX: PAA) ([NYSE: PAAS](#)), in particular, I believe **Silver Wheaton Corp.** (TSX: SLW) ([NYSE: SLW](#)) is shaping up as the best way to play the impending rally in silver.

Let's take a closer look at why now is the time to take the plunge and invest in Silver Wheaton.

Derives the majority of its revenue from silver

Unlike other precious metal streaming and royalties companies, Silver Wheaton's key assets and production is silver, with its reserves composed of 812 million ounces of silver and 6 million ounces of gold. Silver makes up 75% of its total production and generating 70% of its revenue, making Silver Wheaton the best-placed streaming company for investors seeking exposure to silver and the impending silver rally.

It is also superior to a silver ETF like the largest available, the **iShares Silver Trust** ([NYSEMKT: SLV](#)), because like a silver miner, Silver Wheaton offers leveraged exposure to the price of silver, whereas an ETF solely tracks the price. Furthermore, with an ETF, investors have to pay an expense ratio, which for the iShares Silver Trust is 0.50%, whereas when investing in Silver Wheaton, there are no ongoing fees payable. These fees, as you know, eat into investor returns over time.

All of this ensures that investors receive a bigger bang for their buck, with even a small rise in the price of silver set to deliver greater potential returns.

A lower-risk investment than silver miners

A key advantage of any precious metals royalty and streaming company is their low-cost operating structure since they are not actual mine operators. Essentially, in exchange for providing to miners the cash necessary to develop their mines, a streaming company receives a contractual right to receive a portion of the mine's production at a set price, typically well below the spot price.

This means they are not required to make the same significant capital expenditures a miner needs to make in order to develop mines and maintain sustainable production. They also avoid the cost overheads associated with operating mines in what is a capital-intensive industry.

The advantages this grants Silver Wheaton becomes clear when we take a closer look at its production costs as a portion of revenue compared those to the major pure-silver miners. For the second quarter of 2014, Silver Wheaton's production costs were equivalent to 24% of total revenue, whereas Pan American's were 73%, while **First Majestic Silver Corp.**'s ([TSX: FR](#)) ([NYSE: AG](#)) and **Endeavour Silver Corp.**'s ([TSX:EDR](#))([NYSE: EXX](#)) were 64%.

Silver Wheaton also had a far lower cash cost per ounce of silver produced, which for the same period was \$4.72 compared to Pan American's \$12.06 , First Majestic's \$9.63, and Endeavour's \$9.87 per ounce.

Another appealing aspect of Silver Wheaton when compared to silver miners is its relatively low degree of risk. By not having to make the same capital expenditures, the company is less exposed to much of the financial risk involved in mining, with that being born by the recipients of its loans and financing agreements. Furthermore, as a non-operator, it is not exposed to any of the operational or execution risks faced by miners.

This leaves Silver Wheaton with a far cleaner balance sheet and fewer financial obligations than miners, making it a considerably lower-risk investment.

Silver Wheaton is then able to generate a superior margin per ounce of silver sold, which means that even a small increase in the silver price will generate significant returns for the company in comparison to miners.

Investors are making big bets on silver

Gold may be on the nose for many investors, with George Soros selling \$122 million worth of his stake in miner **Barrick Gold** last quarter, while investors have pulled \$253 million from the largest gold ETF, the **SPDR Gold Trust** ([NYSEMKT: GLD](#)), this month alone.

However, they continue to show considerable interest in silver, with the iShares Silver Trust attracting \$90 million of inflows since the start of September. Wall Street is also showing strong interest in silver, with Soros and hedge fund managers Ray Dalio and John Hussman betting big on Silver Wheaton, investing \$9.4 million, \$6.6 million, and \$6.7 million, respectively.

The smart money is betting on a rally in silver, and I say your best bet is Silver Wheaton Corp.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

1. NYSE:AG (First Majestic Silver)
2. NYSE:EXK (Endeavour Silver Corp.)
3. NYSE:PAAS (Pan American Silver)
4. NYSEMKT:GLD (SPDR Gold Trust)
5. TSX:EDR (Endeavour Silver Corp.)
6. TSX:FR (First Majestic Silver)
7. TSX:WPM (Wheaton Precious Metals Corp.)

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