



3 Contrarian Gold and Silver Plays for a Market Correction

Description

Over the last month, a firmer U.S. dollar has driven the prices of precious metals lower, with gold down 2% and silver down 8% over that period. But the ongoing strength of the U.S. dollar can't continue forever because of the weak and increasingly volatile global economy.

This will eventually impact U.S. economic growth, causing investors to flock to safe haven investments like precious metals. Let's take a closer look at three contrarian picks to play this macroeconomic uncertainty and looming market correction — before gold and silver rally.

Silver Wheaton Corp.

I have been quite bullish on silver for some time now and one of my favourite stocks for exposure to silver is precious metals streamer **Silver Wheaton Corp.** (TSX: SLW)(NYSE: SLW). It offers investors low-risk exposure to silver, because as a precious metals streamer it isn't engaged in high-risk mining operations.

By not operating silver mines, many of the risks associated with mining operations are mitigated while the company has the advantage of a far lower cost structure. This is because it is not required to make the same capital expenditures or meet the high operating costs required to sustain mine production.

These characteristics allow Silver Wheaton to remain profitable at silver prices lower than miners require, while offering greater upside because even a small spike in silver will create an appreciable increase in margins.

Silver Wheaton now appears attractively priced on its latest pullback — its share price is down 17% over the last month. The lower entry point and regular dividend payment, which will continue rewarding investors for their patience, make it a compelling investment.

Goldcorp Inc.

The world's largest gold miner, **Goldcorp Inc.** (TSX: G)(NYSE: GG) is fast shaping up as the best contrarian investment in what has become an unloved industry, because of softer gold prices.

Not only has it built a fortress balance sheet, but it offers investors exposure to both gold and silver. This is because it has considerable gold reserves of 54 million ounces along with silver reserves of 818 million ounces, well in excess of the reserves of many primary silver miners.

This is particularly important for investors, because I believe silver holds far greater potential upside than gold with the gold-to-silver ratio having widened well beyond historical averages. At the start of 2014, 62 ounces of silver bought one ounce of gold, but now it takes 71 ounces of silver to buy an ounce of gold.

Importantly for investors, Goldcorp is a low-cost operator, with all-in-sustaining-costs of \$852 per ounce. That allows it remain profitable at gold prices other higher costs miners can't. These low operating costs coupled with its fixed costs will see its profit margins grow significantly, even if there is only a slight rally in gold and silver prices.

Sandstorm Gold Ltd.

Precious metals streamer **Sandstorm Gold Ltd.** ([TSX: SSL](#))(NYSEMKT: SAND) possesses many of the characteristic that make Silver Wheaton such a winner for investors. But it is a relative newcomer to the fray, at just over four years old. This gives investors significantly more potential upside while the company's operations mature.

Sandstorm holds a high quality asset base with a long production runway composed of 14 streaming and royalties contracts. For 2014, gold production is forecast to be 40,000 to 50,000 ounces of gold or up to a 19% increase over 2013. Already, its first half 2014 results indicate this is achievable, with production coming in at 22,115 ounces. Importantly, production is expected to continue growing, with 70,000 ounces of gold expected by 2017.

But like Silver Wheaton, it is Sandstorm's low-cost operating structure that makes it particularly appealing. It has cash costs of under \$400 per ounce, which is significantly less than any of the gold miners. This reduces the risks associated with investing in Sandstorm, while still providing investors with the leverage associated with gold miners.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

1. TSX:SSL (Sandstorm Gold Ltd.)
2. TSX:WPM (Wheaton Precious Metals Corp.)

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Author

mattsmith

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