Why Billionaire Eric Sprott Thinks Ebola Will Cause Gold and Silver to Skyrocket

Description

In an interview earlier this week, billionaire Eric Sprott was interviewed by *The Gold Report* on why he is betting so heavily on gold and silver. Why is he such a believer? Below, we take a look at a couple of reasons, then reveal the best ways to make this bet.

The Ebola Outbreak

First of all, it's important to make one thing clear: Gold is not really a hedge on inflation. Recent data has proved as much. Rather, the metal is a hedge on the *fear* of inflation. That's why crises such as the Ebola outbreak prompt spikes in the gold price — investors speculate that economies will be hurt, prompting central banks to print more money, which leads to greater inflation. So investors snap up gold, prompting the price to rise.

And the Ebola outbreak could get much worse. To make things clear, no one is hoping for such an outcome, and Mr. Sprott said as much as well. But Sierra Leone and Liberia have proved incapable of handling the epidemic. Worse still, the virus could easily spread into countries like Cote D'Ivoire and Ghana. From there, it will only be harder to contain.

The virus could also have an impact on supply — for example, Ghana is the world's 10th largest gold producer. Mali and Burkina Faso are also significant producers in West Africa.

Supply and Demand

If you look at the world supply of gold, it's in serious trouble. Mining companies are cutting exploration budgets, junior explorers can't get funding, and mines are being depleted. So in just a few years, global mine supply will fall, under practically any gold price scenario. A similar case can be made for silver.

Meanwhile, China has been buying ever-increasing amounts of gold. In fact its gold consumption has doubled since 2011. As Mr. Sprott put it, "Obviously, the physical gold market is not manifesting itself in the price changes." There's a similar story going on in the silver market. Last year, India bought an extra 18% of the silver market, yet prices somehow went down. Over the longer term, especially with depleting mine supply, this could cause prices to skyrocket.

So how do you profit?

Mr. Sprott and his team offer an ETF of gold companies, and he screens for two items in particular: revenue growth and a lean balance sheet. Revenue growth is important because it signifies growing production. Meanwhile a clean balance sheet is important because high debt levels increase risk, take a bite out of profitability, and also make a company less flexible.

With that in mind, two companies stand out: **Franco-Nevada Corporation** (TSX: FNV)(NYSE: FNV) and **Silver Wheaton Corp.** (TSX: SLW)(NYSE: SLW). These companies don't operate existing mines, but rather sign royalty agreements with other miners. This helps them grow revenue more consistently. The companies also have pristine balance sheets.

If you're insistent on buying a miner, you should consider **Goldcorp Inc.** (TSX: G)(NYSE: GG). The company has been a very responsible actor, and as a result, it has less than $1 billion in net debt. Better yet, it is still growing production.

There are other stocks — not just in precious metals — you should consider for your portfolio. Below, we highlight five of them.

CATEGORY

1. Investing
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1. NYSE:FNV (Franco-Nevada)
2. TSX:FNV (Franco-Nevada)
3. TSX:WPM (Wheaton Precious Metals Corp.)

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