



Why Now Is the Time to Bet on a Silver Rally With Silver Wheaton Corp.

Description

While precious metal prices continue to slump under pressure from a stronger U.S. dollar, I remain bullish on the outlook for silver.

Silver has plunged 28% over the last year, now trading at its lowest point since February 2010. But there are signs a rally is imminent, and it has the potential to outperform gold, offering investors considerably more potential upside.

Let me explain why.

The gold-to-silver ratio continues to widen

A key indicator of whether silver is undervalued is the gold-to-silver ratio. Over the last year, this ratio has widened significantly, now requiring 74 ounces of silver to buy one ounce of gold, compared to only 60 ounces one year ago.

The ratio is also becoming further disconnected from its historical average. Over the last 100 years, the average ratio required 47 ounces of silver to buy one ounce of gold. This indicates a rally is imminent, with the ratio eventually set to regress to its historical norm.

Industrial demand for silver is expected to skyrocket

Unlike gold, silver is used in a wide range of industrial applications, with the fastest growing being its use in the manufacture of photovoltaic cells for solar panels.

Already, supply fundamentals indicate an epic rally is ahead, with physical demand for silver having exceeded supply in 2013 by 103 million ounces and expected to do so again for 2014 and 2015.

Furthermore, a number of silver miners have been winding down their investment in exploration and mine development, which I expect to continue curtailing physical supply until there is a significant rebound in the silver price.

What is the best way to cash in silver's latest price plunge?

With silver trading at such low prices — coupled with supply shortages — its price will appreciate over the longer term as demand further heats up. This makes now the time for long-term contrarian investors to consider investing a portion of their portfolio in silver.

I believe the best way to gain this exposure is through precious metals streamer **Silver Wheaton Corp.** (TSX: SLW)(NYSE: SLW). Like silver miners, it provides investors with leveraged exposure to silver, giving them a bigger bang for their buck and higher potential upside than physical bullion or a silver exchange traded fund.

But it is a far less risky investment than the miners. As a precious metals streamer, it does not operate any mines or engage in mining activity. As a result it is not exposed to the same risks as a silver miner, nor is it required to make the same costly investments to develop mines or the significant operating costs associated with managing mining operations.

It also has a diverse number of streaming contracts in place, which allow Silver Wheaton to receive silver and gold at prices well below the spot price in exchange for the loans it provides to miners. These contracts give Silver Wheaton reserves of 812 million ounces of silver and 6 million ounces of gold.

When coupled with its low cost structure, this allows it to remain profitable at silver prices that leave the miners in red ink, while allowing it to generate a superior margin for each increase in the price of silver. Accordingly, even a small increase in the price of silver will have a significant positive effect on Silver Wheaton's profitability.

It also maintains a solid balance sheet, with low leverage and a debt-to-equity ratio of 0.3, further reducing the degree of investment risk associated with the company.

Another sign Silver Wheaton is the best bet on silver is that Wall Street has taken a significant interest in the company. Famed investment gurus George Soros, John Hussman, and Ray Dalio have between them amassed 643,000 shares in Silver Wheaton valued at over \$12 million.

Clearly, Wall Street sees a silver rally on the horizon and believes Silver Wheaton is the best bet on this rally, making now the time for investors to take the plunge.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

1. TSX:WPM (Wheaton Precious Metals Corp.)

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