



## Read This Before You Buy Another Mining Stock: Silver Wheaton Corp. and Royal Gold Inc.

### Description

It's a new way of investing in gold mines.

Understand, this has nothing to do with buying ETFs, bullion, gold coins, or mining stocks. Outside of industry circles and savvy insiders, these firms are rarely advertised to the public.

However, some early investors have collected hundreds of thousands of dollars in profits so far. And I expect every \$1,000 invested could turn into \$5,000 over the years to come. Let me explain.

### The best 'mining' stocks you've never heard of

Look, you won't hear this from many analysts on Bay Street. You certainly won't hear this from your broker. However, I have been saying it for a long time — mining is a terrible business.

First, you have to find a deposit. Be prepared to pay geologists a lot of money to scour the world for new ore bodies. And even if you find something, less than one in 3,000 discoveries are profitable to mine.

This process isn't much better than guesswork. Even if a miner finds something valuable, then they have to dig it out. This usually requires sorting through tons of rock and muck to process a few ounces of metal.

Then they have to grade it, transport it, and ship it to refiners. Along the way, everyone wants their cut. These projects are usually so expensive, they almost never make much money.

And that's when times are *good*. Last year, falling metal prices forced the Canadian mining industry to write off a collective US\$17 billion in reserves. That's a lot of shareholder capital flushed down the toilet.

But as long-time readers know, there's a way to profit from gold and silver mines without taking all of that risk. And over the past few years, these unique businesses have delivered triple-digit gains for

shareholders.

I'm talking, of course, about royalty companies such as **Silver Wheaton Corp.** (TSX: SLW)(NYSE: SLW) and **Royal Gold Inc.** (TSX: RGL)([NASDAQ: RGLD](#)). These firms don't actually own or operate any mines themselves. Instead, they collect mine royalties through a practice called 'streaming metal agreements'.

It works like this. The royalty company fronts mining firms with the cash they need to build a new project. Once completed, the royalty business is allowed to buy a percentage of the mine's output. These purchases are usually at a steep discount to market prices.

It's a real win-win for both the mining company and the royalty business. Miners are able to secure a low-cost source of funds. The royalty company can lock in a steady stream of income that can last for decades.

However, this approach has a lot of advantages over your typical mining operation. Royalty companies aren't on the hook for any cost overruns. They don't have to waste time and money exploring barren territory. Instead, they can spread their risk across a number of projects and hand pick the most promising.

Royalty businesses also have little overhead. Most employ a few experts such as accountants, engineers, and geologists to evaluate new streaming deals. Most of the profits are paid out to shareholders or reinvested back into the business to earn even more royalties.

This has all translated into great returns for investors. As you can see in the table below, royalty businesses like Silver Wheaton and Royal Gold have handily beaten their mining counterparts.

Company	10-Year Return	5-Year Return
<b>Silver Wheaton</b>	505%	40%
<b>Royal Gold</b>	266%	27%
<b>Yamana Gold</b>	18%	(-64%)
<b>Goldcorp</b>	10%	(-50%)
<b>Barrick Gold</b>	(58%)	(-71%)

*Source: Google Finance*

But a quick word of warning: Wall Street is beginning to catch on. Last month, **Goldman Sachs** upgraded its rating on Royal Gold from Neutral to Buy. And according to recent SEC filings, billionaire hedge fund manager George Soros has started accumulating a position in Silver Wheaton.

Now, let me ask you this. What would make some of the world's smartest financial minds take notice of this industry? I'd say it means only one thing: they see an epic rally ahead.

## CATEGORY

1. Investing
2. Metals and Mining Stocks

## TICKERS GLOBAL

1. NASDAQ:RGLD (Royal Gold, Inc.)
2. TSX:WPM (Wheaton Precious Metals Corp.)

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