Silver Wheaton Corp. Offers the Best Way to Cash in on Silver

Description

I have been bullish on the prospects for silver for some time and believe that it offers a superior investment opportunity to gold. However, the big question remains for investors: Should they obtain exposure to silver through bullion, an exchange traded fund (ETF) or through silver mining shares?

Let's take a closer look.

The situation

Silver, unlike gold is both a precious metal seen as a safe-haven investment, as well as an industrial metal that is a key component in a range of industrial applications. Demand from those industrial applications, particularly where silver is used for its conductive properties, such as electronic components and solar panels, are expected to grow exponentially.

Furthermore, a key indicator of the value of silver compared to gold continues to rise.

This indicator is the gold-to-silver ratio, which represents the correlation between gold and silver prices by measuring the amount of silver required to buy one ounce of gold. A decade ago, that ratio stood at 56 ounces of silver, but since then the ratio has widened by 41% to now require 79 ounces of silver to purchase one ounce of gold.

According to industry insiders, silver is significantly undervalued compared to gold and represents the best opportunity for investors seeking exposure to precious metals.

For these reasons, I believe that silver offers a far greater upside than gold.

So what?

With a range of opportunities available, we need to identify the best way to invest in silver.

The most obvious is silver bullion, and with silver having generated an average annual return of 11% over the last 10 years, this appears to be quite appealing.

However, the key drawback is that retail investors are exposed to significant buy/sell spreads that eat into their returns. There are also other fees associated with investing in bullion that are detrimental to returns.

Another option is a silver ETF, the largest being the **iShares Silver Trust** (NYSE:SLV). However, like bullion, investors are liable for a range of fees when investing through an ETF. These can include brokerage fees at the time of acquisition, disposal, as well as an ongoing expense ratio that applies over the life of the investment.

The final option is investing in silver miners, and I believe they offer investors the best opportunity. They do so because they are a levered play on silver. That means that as silver rises, their share prices appreciate at a greater rate, maximizing investors' returns, but the same occurs in reverse when silver falls.

This potentially makes them a riskier proposition than either bullion or an ETF, making it crucial to invest in those miners that have solid balance sheets, quality assets, and low cost structures.

Now what?

My preferred investment is silver streamer **Silver Wheaton Corp.** (TSX:SLW)(NYSE:SLW) because it is a far lower risk option than silver miners. This is because in its operating model, it lends funds to silver miners to develop mining assets in exchange for a right to a percentage of the silver produced at a lower price than the market price, and so removes many of the operational risks.

Silver Wheaton also operates at a far lower cost structure than any of the miners. Silver Wheaton's cash costs per ounce are around $5 compared to **Pan American Silver's** $12 and **First Majestic's** $9 per ounce. This means that as silver rallies, it will generate a higher margin that will translate into superior profitability, driving better share price appreciation.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

1. NYSEMKT:SLV (iShares Silver Trust)
2. TSX:WPM (Wheaton Precious Metals Corp.)

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