



3 Reasons Why You Should Own Silver Wheaton Corp.

Description

There's a case to be made for every investor to own at least some gold or silver in their portfolio.

The biggest reason is an inflation hedge. Inflation might not seem like a threat now, but it could easily rear its ugly head in the future. Precious metals will likely keep pace with inflation in an environment where prices rise rapidly. In a scenario where investors are losing ground holding dollars, things like commodities and real estate become all the more important to own.

Inflation is a problem in many developing countries. Brazil has an annual inflation rate of 7.7%, Colombia is at 4.4%, and Mexico is at 3%. Yes, these numbers are very much in control, but each of those countries has a history of economic instability. If I was spending any amount of time in a country like that, I'd be holding at least a token amount of exposure to precious metals.

Many investors prefer the physical metal to stocks, since it is easily exchanged, and stocks come with operational risk. Remember how many gold companies borrowed heavily in 2011, right when gold peaked? That's operational risk in a nutshell. Gold miners just can't help themselves.

For investors who aren't interested in the physical metal, I think **Silver Wheaton Corp.** (TSX:SLW)(NYSE:SLW) is a good bet. Here are three reasons why.

Minimal operational risk

Unlike most other precious metals companies, Silver Wheaton doesn't take any operational risk. Rather, it provides the capital needed to develop mines in exchange for the right to buy most of the mine's output at a price much cheaper than the market.

This leaves all the operational risk with the underlying miner and makes Silver Wheaton not much more than a finance company. Sure, the company is still pretty interested in the price of silver, but can still make a profit even if prices are weak.

Approximately 75% of the company's revenue comes from silver, which it buys for an average of a little over \$4 per ounce. 25% comes from gold, with an average cost of under \$400. That's without taking

any operational risk at all.

Bullish on silver

There are a couple of reasons to be bullish on silver. One is rather short term in nature, while the other one will likely take years to play out.

Silver is currently trading near its 52-week low, flirting with \$15 per ounce. The commodity has hit this level of support several times in the last few months, bouncing off it each time. There's no guarantee it'll happen again, but it does have a history of being cyclical.

The long-term case is solar energy. Silver is a major part of the process which converts light to energy, giving the commodity a steady source of demand as production of solar cells continues to steadily increase.

Temporary weakness?

Silver Wheaton recently announced a deal with **Vale**, the Brazil-based mining giant. In exchange for US\$900 million, Silver Wheaton gets to buy 25% of the total production at the Salobo gold mine in Brazil at \$400 per ounce for the life of the mine. Based on the price of gold today, the company will add more than \$45 million annually to its bottom line, with potential upside if gold rallies.

To pay for the new steaming deal, the company issued US\$800 million in additional shares. This is bringing down the price of existing shares to the point where they're close to retesting November's lows.

If the price of silver or gold rallies from current levels, this will look like a pretty good entry point. And even if it doesn't, the company is still in much better shape to weather the downturn than most of its peers.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

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

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