



Is Silver Wheaton Corp. Finding a Bottom?

Description

Silver Wheaton Corp. (TSX:SLW)(NYSE:SLW) is down 20% since late January and investors are wondering if the latest pullback is finally over.

Let's take a look at both the technical and the fundamental aspects of the stock to see if this is a good time to add Silver Wheaton to your portfolio.

The technical stats say you should trade the stock

Silver Wheaton has been a dream stock for traders during the past two years. For investors? Not so much.

The shares have taken four runs at \$30 in the last 18 months. Each time, they have pulled back sharply, falling as low as \$20 before dusting themselves off and heading back for another try.

Most of the moves have been determined by the rise and fall of silver prices. The most recent slide is a combination of weak prices for the metal and a huge dilution of the shares.

Silver Wheaton recently signed a US\$900 million deal to acquire a 25% stake in the gold stream produced by **Vale SA** at its Salobo copper mine in Brazil. In order to pay for the deal, Silver Wheaton decided to issue US\$800 million in new shares in a bought deal priced at US\$20.55 per share.

At the time of writing, Silver Wheaton's shares are trading at US\$18.55, which means the underwriting banks are down \$2 per share in a little over two weeks. Ouch!

The past four pullbacks bottomed out roughly between \$20-22.50 per share on the TSX. The current price is about \$23.70, which suggests it might have a bit further to fall.

The technical traders also look at the RSI and MACD charts, among other things. Both these readings suggest the stock might be getting close to a bottom, but isn't quite there yet.

And the fundamentals?

Silver Wheaton is a great investment if you have a long-term bullish outlook for gold and silver. The company does not carry operational risks because it is not a miner. Silver Wheaton simply buys gold and silver at very low prices and sells it for a profit.

In fact, the company's average silver cost generally runs about \$4 per ounce and it pays about \$400 per ounce for gold. Even at current prices, the company enjoys strong margins.

The company often takes advantage of low points in the cycle to negotiate new streaming deals. This is the time that miners are most likely to sell off the gold and silver by-product at low prices on long contracts because they have few other options to raise capital.

As I mentioned before, if you are a precious metals bull, Silver Wheaton is a smart way to play the market, but you should try to pick up the shares for less than \$23.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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1. Editor's Choice

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

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