



Billionaire Ray Dalio Bought \$10.3 Million of Silver Wheaton Corp.: Should You Buy, Too?

Description

It's my favourite way to invest in the mining industry—and apparently billionaire investor Ray Dalio agrees with me.

The stock is **Silver Wheaton Corp.** (TSX:SLW)(NYSE:SLW) and it's an unusual bet. The company doesn't actually own or operate any mines at all. Instead, you could think of them more as the banker of the resource sector.

Here's how the company works: Silver Wheaton fronts mining companies with the cash they need to build a new mine. Once completed, the firm is allowed to buy a percentage of the mine's production at a fixed price.

It's a lucrative business. In the case of Silver Wheaton, the company pays an average of US\$4.14 on each ounce of silver collected. It can then turn around and sell this metal for US\$17 per ounce at today's prices.

That's a lot better than the margins you'll see in any plain Jane resource stock. Running a profitable mine is a tough gig. Your returns can disappear if a producer runs into a labour strike or an expensive cost overrun.

Silver Wheaton, in contrast, avoids this risk. Its costs are fixed. The company pays a one-time upfront fee and then continues to earn royalties as long as the mine is in operation.

Needless to say, this has a lot of advantages over hoarding your wealth in gold and silver. Silver Wheaton is a productive business that can grow and compound over time. In 2005 one share represented about 0.5 ounces in silver reserves. Today that same share is now backed up by five ounces.

That can make a big difference in your returns over the long haul. As you can see in the chart below, the stock has handily beaten silver prices over the past decade. If you had invested \$100 in Silver Wheaton back in 2005, your investment would now be worth over \$600.

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Source: Yahoo! Finance

Those returns are likely to continue. By 2018 the company is expected to collect 51 million silver equivalent ounces, up by more than 40% from today. At those rates, Silver Wheaton will be gushing cash flow, which can either be paid out to shareholders through dividends or reinvested back into more silver streams.

It's this kind of growth that is turning heads on Wall Street. According to recent SEC filings, Ray Dalio increased the size of his position by more than a third last quarter. As of December, the billionaire investor owned over 510,000 shares valued at about \$10.3 million.

And he's not the only one bullish on Silver Wheaton. Last quarter a number of hedge fund managers, including John Burbank, Murray Stahl, and John Thiessen, initiated or increased the size of their positions in the company.

What could all of these money maven's see in Silver Wheaton? I'd say it could only mean one thing—they see an epic rally ahead.

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1. Editor's Choice

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

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