



Why I Remain Bullish on the Long-Term Outlook for Silver

Description

A strong U.S. dollar and the prospect of an interest rate hike has caused precious metals to pull back sharply in recent days with silver being among the hardest hit. The lustrous white metal has plunged by 4% over the last month, whereas gold remained relatively flat, and there are signs that silver's decline will continue—at least for the immediate future.

Nonetheless, I remain bullish on the prospects for silver as a long-term play on precious metal prices.

Now what?

Again and again, silver has demonstrated that it is far more volatile than gold, and there are many reasons for this, but it can be primarily attributed to the tremendous volume of paper silver that is available.

There is currently a prodigious glut of paper contracts. It's estimated that for every ounce of physical silver, there are 250 ounces of paper silver. This has created a virtual supply of silver without putting pressure on the physical silver market, thereby making silver prices highly volatile and keeping them artificially depressed.

Nevertheless, over the long term the market mechanism typically wins out, and there will be a rebalancing between physical and paper silver that will push silver prices higher.

This is also a key reason why silver remains heavily undervalued in comparison to gold. The gold-to-silver ratio is out of whack with its historical averages. At this time, 76 ounces of silver is required to purchase one ounce of gold. This is compared to only 73 ounces three weeks ago, 44 ounces at the height of the gold bull market in 2011, and an average of between 50 and 60 ounces over the last 100 years.

Accordingly, I expect to see silver eventually catch up with gold and for the ratio to fall back to its historical average.

Another important consideration is that silver—unlike gold—is an industrial metal, giving it many of the

characteristics of other commodities, such as copper.

This makes it highly sensitive to changes in supply and demand.

You see, because of its conductive properties, silver is an important element used in the fabrication of a range of electrical products, including consumer electronics, touchscreens, superconductor applications, solar panels, and batteries. These are all experiencing a considerable surge in demand, especially solar panels, as a number of countries are introducing aggressive clean energy targets.

Furthermore, the supply situation is becoming increasingly constrained. A number of miners are shuttering uneconomic production as well as slashing investments in exploration and mine development because of the protracted slump in prices.

This—in conjunction with growing demand—will drive silver prices ever higher.

So what?

Clearly, now is the time to make a long-term investment in silver, and one of the best ways to do this is by investing in **Silver Wheaton Corp.** (TSX:SLW)(NYSE:SLW). Not only is it less risky than miners because it doesn't operate any mines as a precious metals streamer, but it still offers the same leveraged exposure to the price of silver.

This also allows it to operate with a far lower cost structure. It reported cash costs of US\$4.44 per ounce for the first quarter 2016—far lower than the majority of silver miners. As a consequence, even a slight spike in the price of silver will translate into a very healthy bump to Silver Wheaton's bottom line and a higher share price.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

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

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