



3 Reasons Why Silver Will Rally Higher

Description

Like Warren Buffett, I have a disdain for gold as an investment but remain attracted to silver. For many investors, this appears hypocritical given that both are precious metals with closely correlated prices.

However, silver, unlike gold, has considerable utility. It's widely used in a range of industrial processes, thereby giving it the characteristics of a commodity as well as a precious metal.

For these reasons and more, I believe there are signs that silver is poised for an epic rally.

Let me explain.

Now what?

Firstly, despite the recent surge in the price of gold, the price of silver continues to lag behind its more valuable relative.

This becomes quite apparent when examining the gold-to-silver ratio, which essentially expresses the value of silver relative to gold. Over the last two years the ratio has deteriorated considerably, falling from 66 ounces of silver to buy one ounce of gold to now require 74 ounces, indicating that silver is heavily undervalued relative to gold.

Furthermore, with the ratio at such heights, it is becoming quite clear that it is disconnected from historical averages.

You see, over the last 100 years, 55 ounces of silver on average has been required to buy an ounce of gold, and analysts expect the ratio to move back towards this average over time. In order to do so in a market where gold is rising in value, silver would need to appreciate by about 33%, highlighting the upside available to investors.

Secondly, industrial demand for silver is growing strongly.

Unlike gold, silver is used in a wide range of industrial applications primarily because of its conductive

qualities; it is the most electrically conductive of the metals.

As a result, it is an important element used in the manufacture of high-tech electronic components, including LCD touchscreens, electrical switches, light emitting diodes and circuit boards. These are core components in a wide range of consumer electronics, such as cellphones, tablets, computers and flat screen TVs, which are now experiencing explosive growth in demand.

Finally, silver will benefit from the global, secular trend to renewable sources of energy.

Because of its conductive properties, silver is a key component used in the manufacture of solar panels.

Now with a number of countries seeking to aggressively expand their installed solar capacity, the demand for silver for use in solar panels will explode. China alone has stated that it will expand its installed solar capacity five-fold between now and 2020. With 2.8 million ounces of silver required to construct sufficient solar panels to generate one gigawatt of electricity, a tremendous amount of silver is needed.

So what?

These factors certainly bode well for higher silver prices and make investing in the white precious metal an attractive proposition. One of the best ways of getting silver exposure is with silver streamer **Silver Wheaton Corp.** (TSX:SLW)(NYSE:SLW).

It offers the same leverage to the price of silver as offered by the miners, but it is a lower-risk investment because it does not operate any mines. Instead, Silver Wheaton provides financing to miners in exchange for the right to purchase silver in the future for less than the market price.

When this is coupled with its low operating expenses, which saw cash costs of \$4.44 per ounce for the first quarter 2016, it is well positioned to benefit from higher margins that will give its bottom line a healthy bump as silver appreciates.

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1. Editor's Choice

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