



Silver Wheaton Corp.: Time to Buy or Bail Out?

Description

Silver Wheaton Corp. (TSX:SLW)(NYSE:SLW) has enjoyed a stellar run this year, and investors are wondering if the recent pullback is an opportunity to get in or if it's time to book profits and head for the hills.

Let's take a look at the current situation to see if the streaming company deserves to be in your portfolio.

Gold and silver prices

Gold and silver have rallied in 2016, but the surge stalled out in recent weeks, and analysts are trying to figure out where things are headed next.

What's going on?

The big rally came on the heels of reduced expectations for interest rate hikes in the United States.

The U.S. Federal Reserve was supposed to raise its target rate four times in 2016, but weak data early in the year and concerns regarding instability in global financial markets have kept the Fed on the sidelines. This has taken some of the momentum out of the rally in the U.S. dollar, and subsequently brought investors into the gold and silver space.

Why?

Gold and silver are priced in American dollars, so a weaker dollar makes the metals less expensive for holders of other currencies.

Rising interest rates also tend to be negative for the metals because they increase the opportunity cost of owning non-yielding assets.

After the Brexit, most analysts thought the Fed would be forced to wait until next year to make a move, but the mood has shifted in the past month, and the market is now looking for at least one rate hike

before the end of the year.

The tug-of-war will likely continue in the near term, and that means investors should expect some volatility in gold and silver prices.

What's the long-term outlook?

Gold might pick up support as foreign countries continue to move to a position of negative rates. Zero yield starts to look pretty good when you have to pay the bank or the government to hold your money.

As for silver, the metal has an industrial factor to its demand that could provide price support in the coming years. Silver is an important component in the manufacturing of solar panels. As the technology improves and countries shift toward renewable energy, solar could extend its boom, and that should bode well for silver demand.

On the supply side, most silver is produced as a by-product at copper and zinc mines. The commodities slump in recent years has forced mining companies to shelve new projects, and that could lead to a silver supply squeeze in the future.

Silver Wheaton's appeal

Silver Wheaton is not a mining company; it simply provides miners with upfront cash to help them move their projects from development to production. In return, Silver Wheaton is given the right to buy gold or silver produced at the mine for a very attractive price.

For example, the company reported a Q2 2016 cash cost of US\$4.46 per ounce of silver and US\$401 per ounce of gold. Silver currently trades at US\$19.40 per ounce and gold is US\$1,335 per ounce, so the margins are pretty good.

Should you buy or sell?

It all depends on your view of where gold and silver are headed. If you believe the metals are in the early innings of a long-term recovery, Silver Wheaton is a great way to play the rally and should be a part of your portfolio.

However, the near-term risks of a larger pullback are substantial enough that I would keep the position small. Investors who had the foresight to get in earlier this year might want to book some profits. It's the prudent thing to do given the extent of the rally.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

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

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