



The Demure and the Daring: 2 Ways to Play the Pullback in Silver

Description

A bump in silver prices would benefit both **Hecla Mining Co.** ([NYSE:HL](#)) and **Silver Wheaton Corp.** (TSX:SLW)(NYSE:SLW), which are currently off near-term highs. Precious metals markets have recently become skittish due to the upcoming Federal Reserve meeting this September; uncertainty about of U.S. interest rates is affecting sentiment in risk assets. Silver has seen a sharp corrective pullback from recent highs of \$20.57 and is now trading around \$19. This is a significant pullback in highs that were reached in August for both stocks.

A bullish case can be made for silver prices from the risk-off sentiment from uncertainty surrounding a Fed rate hike as well as a potential bump in precious metal prices from the Fed staying pat—if their statements don't appear too hawkish in the press conference.

From this perspective, silver has outperformed gold in the near term in a time characterized by risk-off emotion. Additionally, if the Fed's all-is-well narrative continues, increased industrial production may provide a hedge against a dip in precious metal prices. This may be compounded by silver supply concerns over the medium term at the expense of near-term price weakness, although, in the short term, silver would see a decline from risk-off sentiment.

Silver Wheaton, unique in its position as a silver streamer, has benefited from locking in low prices from current producers, which have struggled to keep operations running with low silver prices. The company's profit margins have increased with no associated increase in expenditures from a rising silver market.

This would be a more conservative play, as costs of their supply are fixed and, longer term, their profit margins will narrow as new supply becomes more expensive to stream in a rising price environment. However, if silver continues into a bull market with a similar rate of increase in silver prices as we have recently witnessed, the upside potential continues to increase, allowing for an asymmetric benefit in risk-reward.

An increasing price environment would cause significant increases in net income and cash flow in the near term, allowing for profit expansion until input streaming prices become elevated in the medium to

long term.

Hecla, which has enjoyed a large increase in its share price from a combination of increasing silver price and its cost-mitigating measures, presents a potentially more lucrative way to benefit from an increase in silver prices with added risk.

As a producer, it has the control to increase supply to more quickly capitalize on rising prices. This is something that the company has proven to be interested in with the recent acquisition of Mines Management Inc. in 2016, which includes a yet undeveloped but nearly permitted silver project.

Continued acquisitions on the part of Hecla may fuel a positive news flow that will allow the company to outperform in a sustained silver bull market.

With a relatively strong balance sheet, including abundant cash and cash equivalents to cover short-term liabilities (2.4 current ratio, 38 % debt-to-equity ratio), the company is in a good position to increase cash flow and net income or acquire additional producers/properties, giving them flexibility to operate in a rising price environment compared to some larger mining equity peers that still suffer under large debt loads.

Both stocks present a good way to trade on convictions on the future of the silver market. If this pullback in silver is just a correction of the current trend over the last six months, these stocks are currently trading at a bargain and are ripe to be added to your portfolio.

CATEGORY

1. Investing
2. Metals and Mining Stocks

POST TAG

1. Editor's Choice

TICKERS GLOBAL

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

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