



Silver Wheaton Corp.: Should You Load Up on This Stock Before the Fed Decision?

Description

Silver Wheaton Corp. (TSX:SLW)(NYSE:SLW) has pulled back from its 2016 highs, and investors who missed the monster rally are wondering if this is a good time to buy the stock.

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

Precious metals outlook

Gold and silver investors are waiting for the U.S. Federal Reserve to reveal its latest card in the ongoing rate-hike game.

Why is this important?

Higher U.S. interest rates tend to be negative for gold and silver because they often trigger a jump in the value of the U.S. dollar as foreign money floods in, looking for the higher yield.

Gold and silver are priced in American dollars, so a rise in the greenback makes the metals more expensive for foreign buyers and can dampen demand.

Higher rates also raise opportunity cost of holding non-yielding assets such as gold and silver.

As such, any indication that rates are going higher is going to be negative.

The stalled rally

Gold and silver have soared this year because the Fed was expected to raise rates four times. Weak data and concerns about global financial markets have kept the Fed on the sidelines, but investors have decided to take profits in recent weeks in case the Fed decides to raise rates at the current meeting.

If the Fed remains on hold today and sends the signal that no move should be expected before next

year, gold and silver will likely resume their rally. Otherwise, investors should prepare for more downside.

Silver Wheaton's appeal

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

How attractive?

The company reported its Q2 2016 cash cost for silver at US\$4.46 per ounce. The gold cost was US\$401 per ounce.

Silver currently trades at US\$19.75 per ounce, and gold will set you back US\$1,330 per ounce, so the margins are quite impressive.

Most of the deals are negotiated on mines set up to produce base metals such as copper and zinc. Miners of these commodities are battling a long slump in prices, so they are willing to give Silver Wheaton favourable deals to secure essential funding.

Should you buy?

Long-term gold and silver bulls should consider making Silver Wheaton a core holding. The stock is a great way to play both metals without taking on the direct operational risks faced by the miners.

I would wait for the Fed decision before buying the stock. If the Fed stays on hold and prices surge, you might miss a bit of upside, but it is better than risking a big hit if the Fed raises rates and delivers a hawkish outlook for the coming months.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

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

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