



Why Silver Wheaton Corp. Is Still a Great Long-Term Investment

Description

Silver Wheaton Corp. (TSX:SLW)(NYSE:SLW), and quite possibly the entire precious metals market, is in a very unique position.

The streaming company has, like nearly all of the companies in the precious metals industry, started out 2016 on an absolute tear. The stock was trading below \$18 at the turn of the year, and then shot straight up, hitting \$40 this past summer.

The stock has since dropped over 10% just in the past month, leading many to speculate that the current rally on gold stocks is all but over as gold prices have started to settle from their own rally.

Silver Wheaton is a streamer, not a miner

The first thing to take into consideration is that Silver Wheaton is not really a precious metals miner at all. As a streaming company, Silver Wheaton provides upfront capital to mining companies who use those funds to set up and begin mining operations.

In return for that investment, mining companies will offer the streamer a portion of the metals retrieved from that mine at a discounted price. The streamer can then offload that metal on to the market at the going rate.

To illustrate how lucrative this can be for the streamer, consider the current rate for an ounce of gold is approximately US\$1,275 per ounce, and an ounce of silver can be purchased for about US\$17.75. The discounted rate for gold can be as low as US\$400 per ounce, and US\$4.50 per ounce for the price for silver.

Are the good times over?

Precious metals stocks have had one of their best years in recent memory. Silver Wheaton is no exception to this; the stock is still up over 80% year-to-date, despite a drop of over 10% in the past month. That drop has come as the rally on gold prices has cooled somewhat, but it's technically not over yet. There's still a number of factors that could drive gold prices higher.

Gold has been used as a safe store of wealth for thousands of years. In times of uncertainty, investors have often turned to gold. While some critics have dismissed this over the past few years, citing weak growth for the metal since the 2011 price drop, the emergence of new digital currencies, and the overall performance of the stock market, the fact remains that gold is still very much a measure of and a store of wealth.

Prolonged weakness or additional slowdown in the economy or an increase in interest rates could impact Silver Wheaton. At least until December, and more than likely in the New Year, it seems likely that the U.S. Fed will not raise rates, meaning that there is still significant upside to Silver Wheaton.

In short, a weak and uncertain economy and prevailing low interest rates will continue to fuel gold prices and Silver Wheaton well into next year.

In my opinion, Silver Wheaton remains a great investment opportunity for those investors that are looking for long-term growth. The company offers nearly all of the benefits of investing in a precious metals miner directly without most of the risk, and market conditions continue to improve the case for investing in the precious metals industry.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

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

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