



Silver Wheaton Corp.: Where Does it Go From Here?

Description

The U.S. presidential election had an outcome that investors of **Silver Wheaton Corp.** (TSX:SLW)(NYSE:SLW) were hoping would occur. A Trump win, it was believed, would scare the markets considerably, sending the price of gold and silver higher, thus increasing margins for Silver Wheaton. But when Donald Trump was declared the winner, the stock tanked from \$32.24 per share to \$24.28.

Naturally, when a stock tanks that hard (often an overreaction), prospective investors are curious about whether the company is a buy or if it is worth avoiding it. What is going to happen to gold and silver?

As is typical with investing, there are different opinions about what a Trump victory will actually do the economy. On one hand, there is a belief that Trump will create panic in the global markets with his protectionist policies. Further, there is the potential for increased inflation due to his proposed investments in infrastructure. When there is panic in the markets and increased inflation, investors tend to flock to safer (read: gold) assets.

It's difficult to know if Trump's policies will make gold even weaker. If the economy recovers due to increased infrastructure investment, the U.S. Federal Reserve might increase interest rates. A strong U.S. dollar is bad news for those that invest in gold.

Here's the unfortunate reality: we just don't know what to expect with regard to gold and silver. Therefore, we need to analyze Silver Wheaton separately from the speculative nature of politics. And if we do that, I'm quite confident about Silver Wheaton in the long term. There are three reasons for that.

The first has to do with solar power. While there are many who believe Donald Trump will pull back from investing in green energy, I believe we're reaching the point where presidential policies can have little impact on what happens to an industry. Since solar panels are becoming cheap, and thanks to products like the Solar Roof from **Tesla Motors Inc.**, the demand for stronger solar panels will become greater. And since solar panels require quite a bit of silver, as demand continues to rise, silver prices should stay strong.

Another reason has to do with Silver Wheaton's business model. It doesn't actually own any mines;

instead, it finances miners looking to find commodities such as copper. The miner gets the financing it needs and, in exchange, Silver Wheaton gets cheap silver. In Q2 2016, Silver Wheaton paid US\$4.46 per ounce in average cash costs. So even with prices dropping some, the margins are still lucrative.

And the final reason has everything to do with the fact that commodities have been in such a glut. There aren't as many copper mines, for example, launching, so I expect to see silver supply dry up over the next couple of years. This shortage should send the price much higher, which will help Silver Wheaton generate lucrative margins.

All in all, I remain bullish on Silver Wheaton. There's no denying the uncertainty from a political perspective; however, I don't believe in investing in stocks based on politics. Rather, I like to invest based on the long-term fundamentals of the company, and for Silver Wheaton, they look quite nice.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

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

Category

1. Investing
2. Metals and Mining Stocks

Date

2025/08/18

Date Created

2016/11/29

Author

jaycodon

default watermark