



Silver Wheaton Corp.: Is a Rebound About to Begin?

Description

Silver Wheaton Corp. (TSX:SLW)(NYSE:SLW) has taken a big hit in the wake of the U.S. election, but recent gains in precious metals suggest better days might be on the horizon.

Let's take a look at the current situation to see if Silver Wheaton deserves to be a contrarian pick today.

Gold and silver prices

Gold and silver have been under pressure since late summer, but the downturn really picked up steam after the surprise result in the race for the White House.

Most pundits thought the opposite would happen in the wake of a Trump win.

Why?

Analysts thought Trump's victory would trigger a rout in global stocks and result in a renewed flight to safe-haven assets. As we now know, that hasn't happened. In fact, stocks have soared to record highs, and money has exited safe-haven assets, such as gold, in a broad transition into U.S. equities.

Investors also thought the Federal Reserve might continue to sit on its hands until Trump takes office and begins to implement some policy changes. Now, the consensus belief is that the Federal Reserve will go ahead with an interest rate hike this month.

Higher rates tend to be negative for gold and silver because they put upward pressure on the American dollar and raise the opportunity cost of holding non-yielding assets.

Changing tide?

In recent trading sessions, however, gold and silver have picked up a bit.

Part of the move is connected to concerns about the potential for widespread bank failures in Italy as a result of the "no" vote in the December 4 referendum.

Investors are also getting a bit uncomfortable with Trump's decision to take early shots at China, both through his conversation with Taiwan's president and his less-than-diplomatic tweets aimed at the Asian superpower.

Add to this the potential for new trade wars if the president-elect follows through plans to overhaul several trade agreements, and you get a market that is starting to shift some funds back into gold and silver.

Whether or not we are at the beginning of a strong move to the upside is anyone's guess, but it looks like the pullback is at least taking a breather.

Silver Wheaton's attractive model

Silver Wheaton doesn't own any mines; it simply provides funding to mining companies to help them move their projects from development to production.

In return for the cash, Silver Wheaton is given the right to buy gold or silver produced at the mine for a very reasonable price.

How reasonable?

The company reported Q3 2016 cash costs of US\$4.51 per ounce of silver sold and US\$390 per ounce of gold sold.

That leads to some pretty solid margins when you consider the company received an average price of US\$1,953 for its silver and US\$1,336 for its gold during the quarter.

The streaming model is appealing for investors because they get to benefit from rising prices without taking on the direct risks connected with owning the miners.

Should you buy today?

Investors should expect more volatility in gold and silver in the near term, and another leg to the downside is certainly possible.

However, if you have a long-term bullish view of the sector, Silver Wheaton is a great way to play an upward trend. Given the extent of the sell-off since August, it might be a good time to take a small contrarian position in the stock.

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