



Silver Wheaton Corp.: Should You Own This Stock Today?

Description

Silver Wheaton Corp. (TSX:SLW)(NYSE:SLW) has been on a downward slide since the summer, and investors are wondering if more pain could be on the way.

Let's take a look at the current situation to see if this streaming company deserves to be in your portfolio right now.

Fed rate hikes

The U.S. Federal Reserve just hiked its target interest rate for the first time since December 2015, and precious metals stocks are responding negatively.

Some investors might be surprised at the knee-jerk reaction, considering the fact that a rate increase was widely expected. What appears to have caught the market off guard is the Fed's hawkish outlook for 2017.

The Fed said it plans to raise rates three times next year. If that turns out to be true, 2017 could be rough on Silver Wheaton and its precious metals peers.

Why?

Rising U.S. rates tend to be bad news for gold and silver because they increase the opportunity cost of holding non-yielding assets.

Rate hikes also result in stronger demand for the U.S. dollar, in which gold and silver are priced. As the greenback rises in value, gold and silver get more expensive for buyers holding other currencies.

Is the sell-off overdone?

Last year the Fed indicated it would raise rates four times in 2016. As we now know, that didn't happen, so there is a chance the same story could play out in 2017.

How?

Europe is a wildcard for financial markets in 2017 due to Brexit issues, elections in France and Germany, and a possible banking crisis in Italy. If any of these events upset market confidence, the Fed could adjust its schedule.

Another issue to watch is Trump's plan to renegotiate or cancel a number of trade deals. That process could also destabilize global markets and force the Fed to sit on its hands.

So, the three hikes expected for 2017 aren't written in stone, and any indication the Fed might stay on the sidelines could send gold and silver soaring again.

Silver Wheaton's business model

Silver Wheaton doesn't own any mines; it simply provides mining companies with cash to move their projects from development to production. In return, Silver Wheaton is given the right to buy gold or silver produced at the mine for very attractive prices.

It then sells the gold or silver in the spot market and pockets the difference, which tends to be quite substantial.

Silver Wheaton is appealing because it gives investors a way to play a rally in both gold and silver without taking on the direct risks associated with owning the mining companies.

Should you buy today?

Given the aggressive tone coming from the Fed, the downward trend in gold and silver might continue in the near term, so I would stay on the sidelines until the pullback has clearly run its course.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

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

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