



Silver Wheaton Corp.: Should You Buy the Bounce?

Description

Silver Wheaton Corp. (TSX:SLW)(NYSE:SLW) is catching a nice tailwind after a painful pullback.

Let's take a look at the current situation to see if this is a good time to buy the stock.

Gold and silver market

Gold and silver prices have rebounded in recent sessions after the nasty sell-off in the wake of the Trump election win.

What's going on?

Investors dumped the precious metals amid fears that Trump's plans for massive infrastructure spending could spur strong U.S. growth in the next few years.

If that happens, the Federal Reserve would likely get more aggressive on its rate-hike program, which would normally be considered negative for gold because higher rates increase the opportunity cost of holding non-yielding assets.

When the Fed raised its target rate in December, it also said 2017 could see three more moves to the upside, fueling even greater fear in the gold market.

However, a weaker-than-expected economic report released on December 29 has spurred a move back into gold and silver as investors start to consider another repeat of 2016, where the Fed only raised rates once, instead of the four times the market expected at the beginning of the year.

Investors might also be getting nervous about Trump's tough stance on China as well as the ongoing banking crisis in Italy.

Why?

If Trump decides to take China to task for its trade and monetary policies, global markets could be in for a rough ride next year.

Over in Europe, Italy just announced a bailout for its third-largest bank, and fears are growing that several other institutions are also at risk of going bust without government aid.

If the situation gets out of control, Europe and the broader global financial market might suffer a nasty shock.

Why is Silver Wheaton attractive?

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, Silver Wheaton is given the right to buy gold or silver by-product produced at the mine for a very attractive price. Most of the deals are done on mines set up to produce base metals, such as copper or zinc, so the mining companies are willing to use the streaming deals to finance the project.

Silver Wheaton then sells the gold and silver at market prices and pockets a nice margin in the process.

So, owning the stock is a great way for investors to benefit from rising gold and silver prices without taking on the direct operational risks that come with buying the miners.

Is this the right time to buy?

Silver Wheaton fell from \$40 per share in mid-August to below \$23 per share in mid-December, so a large part of the downside risk has been removed.

The rally over the past two weeks has since lifted the shares back to \$27, and there is still more room to run if gold and silver are actually setting up for a new rally.

As such, contrarian investors who are precious metals bulls might want to take a position to get ahead of the next leg up, but I would be careful chasing the recent bounce. If you want to get in, it would be wise to keep the investment small, just in case the recent move is just another head fake.

We might be at the beginning of an extended surge to the upside, but it is too early to tell if that is indeed the case.

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