



## Silver Wheaton Corp.: Will This Stock Continue to Rally?

### Description

**Silver Wheaton Corp.** (TSX:SLW)(NYSE:SLW) is up nearly 20% since the middle of December, and investors are wondering if the surge is set to continue.

Let's take a look at the current situation to see if this is a good time to add the streaming company to your portfolio.

### Silver Wheaton's business model

Silver Wheaton is a unique beast in the mining sector. The company doesn't actually operate any mines; 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 produced at the mine at very reasonable prices.

How reasonable?

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

Silver Wheaton received US\$19.53 per ounce of silver and US\$1,336 per ounce of gold in the quarter, so the margins can be quite impressive.

The mining companies are willing to do the deals because most of the sites are set up to produce base metals, such as copper and zinc. The gold and silver are normally by-products.

### Market outlook

Gold and silver rallied in the first half of 2016, but then pulled back on fears of rising interest rates in the United States. The Trump election win then extended the slide until the middle of December.

Higher U.S. rates tend to drive up the value of the U.S. dollar, in which gold and silver are priced,

making the metals more expensive for holders of other currencies. Rising interest rates also increase the opportunity cost of holding non-yielding assets.

When the U.S. Federal Reserve raised its target rate in December, it also signaled three more increases for 2017. If that turns out to be the case, gold and silver will likely suffer.

However, mixed U.S. economic data in recent weeks has some pundits wondering if 2017 will be a repeat of 2016, where the Fed was expected to be aggressive, but didn't follow through on the plan.

Investors are also starting to get nervous about Trump's aggressiveness towards China and his plans to renegotiate a series of trade deals with other countries.

This could lead to instability in global markets, which often drives up demand for gold.

Italy's banking crisis is another source of investor discomfort. The country recently announced plans to bail out its third-largest bank, and investors are concerned several more banks could be on the brink of collapse. If things unwind in an ugly way, we could see a financial shock in Europe this year.

So, there are some potential catalysts for a gold and silver rally in the coming months.

### **Should you buy?**

If you are a precious metals bull and want to take advantage of the pullback to buy the sector, Silver Wheaton is a great way to get both gold and silver exposure.

I would keep the position small until there is clear evidence the current rally has legs. For the moment, we don't know if the latest surge is the start of a new upward trend or simply a head fake before another move to the downside.

### **CATEGORY**

1. Investing
2. Metals and Mining Stocks

### **TICKERS GLOBAL**

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

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