



Silver Wheaton Corp.: Is There Still Time to Buy?

Description

Silver Wheaton Corp. (TSX:SLW)(NYSE:SLW) is up 25% in the past five weeks, and investors who missed the surge are wondering if more gains could be on the way.

Let's take a look at the current situation to see if Silver Wheaton deserves to be in your portfolio.

Gold and silver outlook

Gold and silver enjoyed a nice rally through the first half of 2016, but they gave back much of the gains by the middle of December.

Why?

The initial run to the upside came as a result of reduced expectations for interest rate hikes by the U.S. Federal Reserve.

At the beginning of 2016, most pundits thought the Fed would move three or four times during the year, but weak U.S. economic data, concerns about China's economy, and uncertainty around the Brexit vote kept the Fed on the sidelines until December.

Gold and silver tend to come under pressure when interest rates rise, so the lack of action by the Fed was positive for the metals.

After the U.K. vote, investors began to focus on the Fed heading into 2017, and that's why the rally ran out of steam. The surprise election result extended the rout.

Has the tide changed?

One month isn't enough time to declare a new rally, but there appears to be a change of sentiment in the market.

President Trump's aggressiveness towards China and other trading partners has some analysts concerned global markets might destabilize.

At the same time, Brexit remains a threat, France and Germany have elections this year, and Italy's banking crisis is finally getting more attention.

So, there are potential catalysts for a rush into safe-haven assets, and that might be why gold and silver are catching a bid.

Silver Wheaton's appeal

Silver Wheaton is a good way to play rising gold and silver prices.

The company doesn't actually own 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 purchase gold or silver produced at the mine for a very attractive price. The company then sells the metals on the open market and pockets a significant margin.

Investors like Silver Wheaton because they get to benefit from stronger demand for precious metals without taking on the direct risks associated with owning the mining companies.

Should you buy?

If you believe gold and silver are definitely headed higher, Silver Wheaton should be at the top of your buy list.

At this point, however, I would keep the position small.

The Fed is expected to raise rates three times in 2017, and that downward pressure could overpower any safe-haven demand created by turmoil in Europe.

In addition, President Trump might decide to lighten up on his trade rhetoric. If that happens, the current gold and silver rally could run out of steam.

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Date

2025/07/06

Date Created

2017/01/24

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