



Silver Wheaton Corp.: Is it Time Right to Buy This Unique Mining Stock?

Description

Silver Wheaton Corp. (TSX:SLW)(NYSE:SLW) is one of those frustrating stocks that moves from absurd lows to incredible highs. Consider that this time last year the stock was trading at a little over \$21 a share. By August 2016, it nearly hit \$40 before taking a roller coaster back down to \$22.75 per share at the end of 2016. And now it has been on the rise, touching \$30 before falling back down a little.

Investors have to ask themselves if owning this unique mining stock is a smart move and, just as importantly, if this is the right time to start acquiring shares. To determine that, it helps to understand a few key factors about the company.

First, Silver Wheaton isn't your typical mining company. Unlike other precious metal miners, Silver Wheaton doesn't operate its own mines. Instead, it acts like the financier for other mining companies. In exchange for upfront funds, Silver Wheaton buys precious metals for serious discounts. The miner gets the funds it needs to launch a new operation, and Silver Wheaton only pays when new silver or gold is found.

This sort of a deal is highly lucrative because the company only paid US\$4.51 per ounce of silver and US\$390 per ounce of gold in Q3 2016. Its average realized sale price during that period of time was US\$19.53 per ounce of silver and US\$1,336 per ounce of gold.

Second, Silver Wheaton tracks the spot price of silver and gold almost perfectly. Between February 2016 and August 2016, the price of gold increased from US\$1,212 per ounce to \$1,368. And silver had increased from ~US\$15 to US\$20.70. Naturally, Silver Wheaton's share price went on a rapid rise too. Gold and silver have been increasing again over the past couple of months with gold going from US\$1,130 to US\$1,242 and silver going from US\$15.75 to ~US\$18.20. Shares followed.

With silver and gold prices rising, investors are excited about the opportunity for Silver Wheaton to generate increased margins thanks to the cheap price it pays for the metals.

Will the prices of silver and gold go up? That depends a lot on the economy.

There is serious concern that President Trump could create currency and trade wars, which would cause serious problems around the world. Add that to fears of a default in Italy and the unknown around the Brexit, and investors are looking for precious metals to soothe their anxiety.

However, the Federal Reserve is considering increasing interest rates again. When rates go up, the U.S. dollar gets stronger, so people don't buy as much gold or silver. If that happens, the price could dip as people get out of precious metals and back into U.S. dollars.

Silver Wheaton is an incredibly unique company and, if chaos occurs around the world, precious metals should send this stock much higher. I think having a small position is fine, but with so much macroeconomic uncertainty, it might be better not to have an outsized position.

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1. Investing
2. Metals and Mining Stocks

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