

Silver Wheaton Corp.: Is the Latest Pullback Over?

Description

Silver Wheaton Corp. (TSX:SLW)(NYSE:SLW) is showing signs of a rebound, and investors are wondering if this is the right time to buy the stock.

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

Precious metals

Gold and silver did something strange in recent days that could be a sign up more upside to come.

What happened?

The precious metals rallied after the U.S. Federal Reserve announced its latest rate hike. Higher interest rates are normally viewed as being negative for gold and silver because they tend to put upward pressure on the value of the U.S. dollar, in which gold and silver are priced.

Rising interest rates also increase the opportunity cost of owning non-yielding assets.

Why did gold and silver surge?

The precious metals had already drifted lower in anticipation of the rate hike, so the move was accounted for in the pricing before the announcement. The rebound was spurred by the Fed's indication that it plans to stick to a three-hike plan for 2017.

Leading up to the meeting, the market thought the Fed might come out with a more aggressive position, which would have been bad news for gold and silver.

So, the really bad news didn't come, and gold and silver enjoyed a relief rally as a result.

More gains ahead?

Now that the rate uncertainty is more or less sorted out, investor focus might turn to geopolitical risks.

President Trump continues to take an aggressive approach toward key trading partners, including China, and some pundits fear a trade war could be on the horizon.

In addition, global investors are concerned Brexit might get ugly, and there is a chance that France could have a new president in the coming months who wants to drop the euro and hold a referendum on membership in the European Union.

So, there could be a catalyst on the way to drive investors into safe-haven assets.

Silver Wheaton's appeal

Silver Wheaton doesn't 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 and silver produced at the mine at a heavily discounted price. The company then sells the metals in the open market and pockets the difference.

This makes Silver Wheaton a great way to play rising gold and silver prices without taking on the direct risks associated with owning mining companies.

Should you buy?

If you believe gold and silver are at the beginning of a new long-term rally, Silver Wheaton deserves to be on your buy list.

Given the market's tendency to shrug off big geopolitical shocks (Trump and Brexit are good examples), I wouldn't back up the truck, but it might be worthwhile to start nibbling now that the latest pullback appears to have run its course.

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