



Why Every Portfolio Needs a Streamer

Description

If you've ever considered investing in precious metals, but have resisted the urge to [invest directly in a mining stock](#), there's another option that has significantly less risk and, in some ways, greater rewards.

Why streamers make great investments

Streamers such as **Wheaton Precious Metals Corp.** ([TSX:WPM](#))([NYSE:WPM](#)) are unique investments in that they are directly impacted by the price of precious metals such as gold and silver, much like the traditional miners.

The [difference between streamers and miners](#), however, comes in the form of the business model each has adopted.

Streamers provide upfront capital to the traditional miners, who use those funds to build, staff, and begin mining operations. In exchange for that upfront investment, streamers are allocated a certain allotment of the metals extracted from the mine, which can be purchased by the streamer at a discounted rate.

That discounted rate can be as low as US\$400 per ounce for gold and US\$4.50 per ounce for silver. By way of comparison, the current spot price for gold and silver sells for US\$1,325 and \$16.40 per ounce, respectively.

Once any metals are purchased at those discounted rates, the streamer can sell those metals at the higher market rate, pocketing the difference. This can turn into an incredibly lucrative arrangement for the streamer, as gold prices have trended higher in recent months, and there's nothing to stop a streamer from holding some of the gold purchased from the miner to wait for better prices.

Another key point that is often dismissed is diversification. Much like an investment portfolio, streamers can move on to the next project relatively quickly, leaving the day-to-day operations of the mine to the traditional miner. By way of example, Wheaton has over 20 active streams scattered across three different continents, with a further nine projects in development.

Is Wheaton a good investment?

I believe Wheaton is a great investment that can be summed up in three key points:

First, the diversification that I mentioned earlier doesn't only apply to the mines that Wheaton is investing in, but also to the types of metals that are being extracted from those mines. Over the past few years, Wheaton has steadily upped the production of gold, which hit 355,104 ounces in 2017 with an average cost of US\$395. Of those gold ounces, 337,205 were sold at an average market price of US\$1,257.

As the additional projects come online, expect that figure to surge.

The second point has to do with dividends. Normally, miners offer a paltry static dividend that is barely worth mentioning. Wheaton, however, provides investors with a dividend that represents 30% of the average operating cash flow from the previous four quarters. At the current stock price, this comes out to a respectable 1.77% yield.

The third point has to do with gold prices. After several years of anemic growth, there is now a growing demand for gold coming from both investors as well as industry. China and India are showing increasing demand for gold jewelry, and a variety of political factors, ranging from Brexit to uncertainty in Washington, have long-time investors exiting the market and hoarding gold.

Industry pundits have targeted gold to hit US\$1,400 or higher by the end of the year, which is not entirely out of reach. Should gold appreciate to that level or higher, streamers such as Wheaton could see even further profits.

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Author
dafxentiou

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