

Silver Wheaton

This report was written on January 2, 2008 - revised on February 9 - by Pascal Willain Author of the book
"Value in Time: Better Trading Through Effective Volume"
John Wiley & Sons, New York, 2008.

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The author is French speaking.
This report has not been proof-read for the proper use of English language.

Executive Summary.

For the past 200 days, the price variations of Silver Wheaton have closely followed the price variations of the other silver miners. These variations have been dictated not only by the price of silver, but also by the lack of confidence that traders have shown in the future value of the US\$.

At the time of writing this report, Silver Wheaton is pushed up by the other industrial metal miners that have followed the commodities turnaround of the past few days, but it is pushed down by the strengthening US\$.

There are two possible outcomes for the general market that will have an influence on Silver Wheaton:

1. If the reversal in commodities can take hold and if money starts to flow out of treasuries as it seems to have started, then markets will move higher and so will Silver Wheaton. If the earnings reports prove not to be as bad as expected, the market's focus will turn back to the new Administration's ability to finance an increased need for liquidities. This will in turn pressure the US\$ but will also be positive for the gold/silver sectors.
2. If the reversal cannot hold its ground because of continued slowing of the economic activities, which might result in horrific earnings reports, then this could trigger renewed forced selling, which could temporarily strengthen the US\$ and weaken precious metal miners. A new selling wave in the US will be felt all over the world and will certainly push Europe to lower its interest rates, which will weaken the Euro. However, a new assets debasement will be catastrophic to financial institutions who will request more Governmental intervention, which will bring the US\$ under pressure as the country's main creditors will not be willing to continue financing the US debts.

Both scenarios therefore end positively for precious metal companies, although they show the potential for short-term divergences.

Additional comment of February 6

Since January, the price gold/silver has strengthened while the US\$ was also firming up against other currencies. This indicates that demand for precious metals increased as the general public has become increasingly aware of the potential inflation threat. The price of silver has steadily gained compared to the price of gold, reducing the silver/gold ratio that plunged at the end of 2008.

The market seems however greatly worried that industrial/film demand for silver metals, which comprises 70% of the annual silver consumption is decreasing more than expected as the economy has stalled, in 2008.

This contradictory point of view is well illustrated by the increased buying pressure on the silver futures while most silver stocks miners are under increased selling pressure.

Silver vs Gold

Figure 1 shows that gold and silver prices had similar moves until August 2008, when silver sharply fell down, as it was believed that demand for silver would decrease due to the slowdown of the economy.

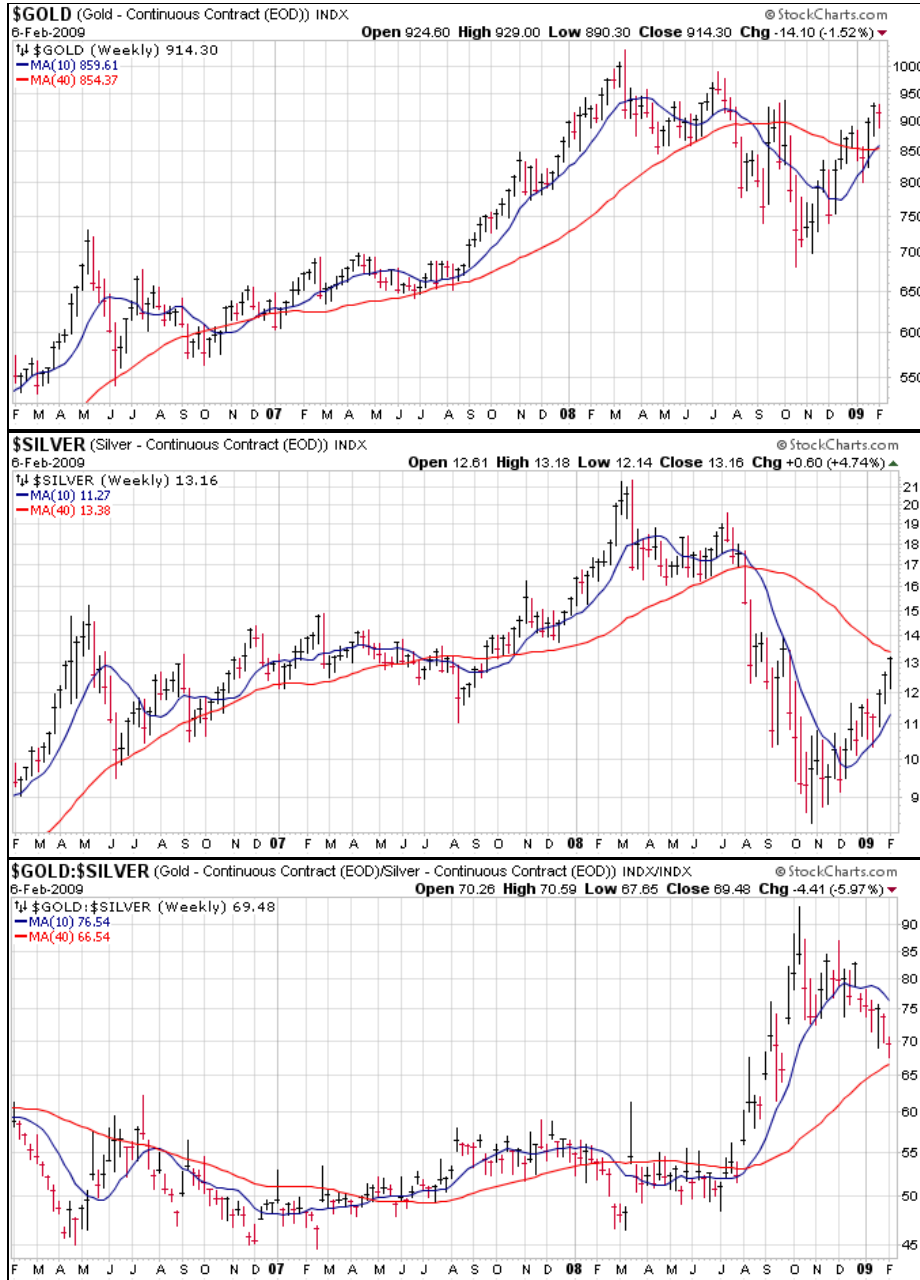


Figure 1: Gold/Silver comparison

In other words, when the market will believe that the economy is on track to a recovery, silver will probably move back to its historical relationship to gold - a relative gold/silver value of 55 against a relative value of 70, as shown in the lower panel of Figure 1.

Figure 2 shows that in the past weeks, traders have been much more active buyers of silver than gold futures - This might also indicate a possible "control" of the gold price, while silver shows the real underlying demand for precious metals. However, Figure 3 and 4 shows that in general, there have been fewer traders interested into silver mining companies compared to gold mining companies. Indeed, the upper panel of Figure 3 shows a strengthening set of large players that has been positive since early November, while the upper panel of Figure 4 shows that since May 2008, there has been on average more sellers than buyers of silver stocks. Selling pressure on silver miners has even increased since January 2009.

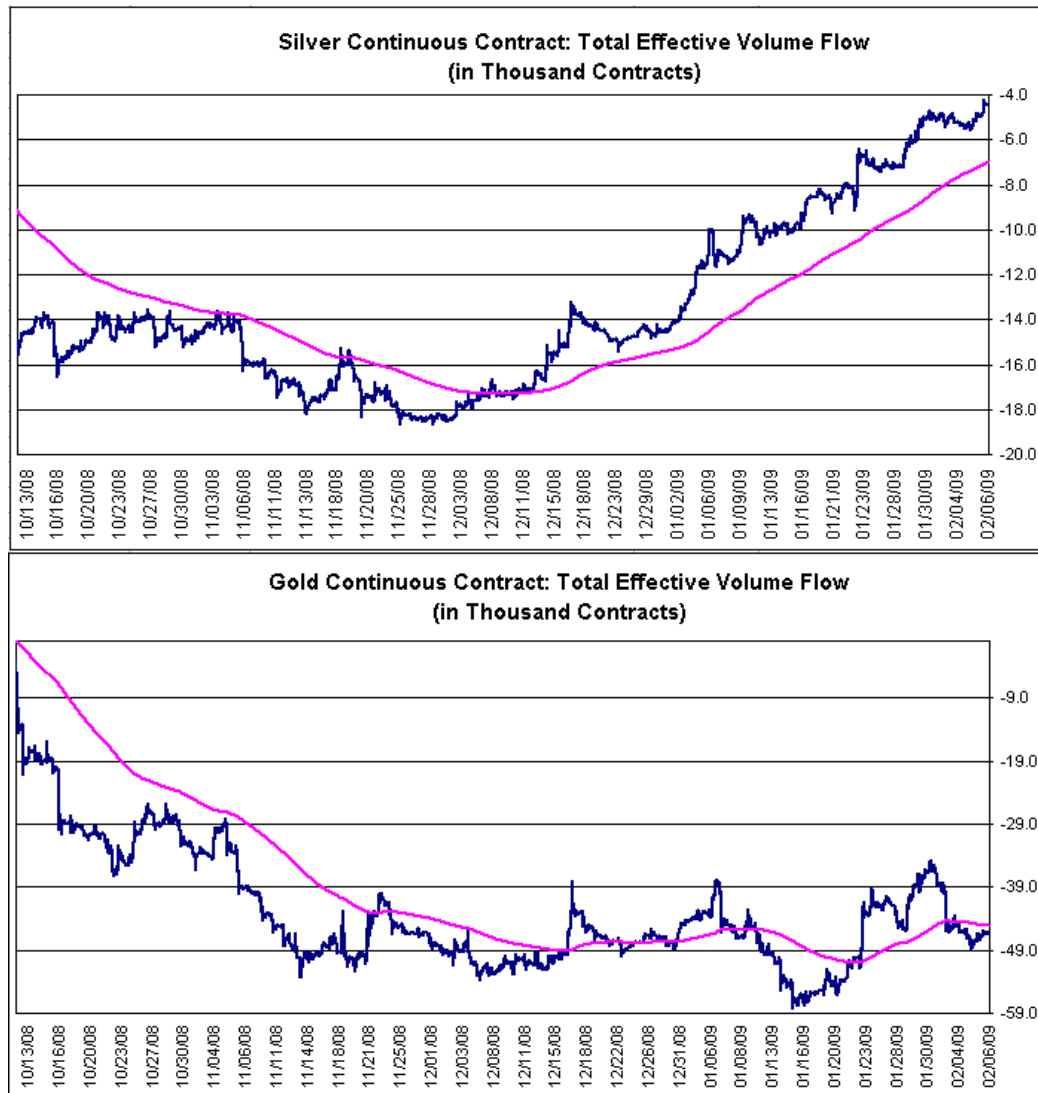


Figure 2: Total Effective Volume analysis on silver and gold futures

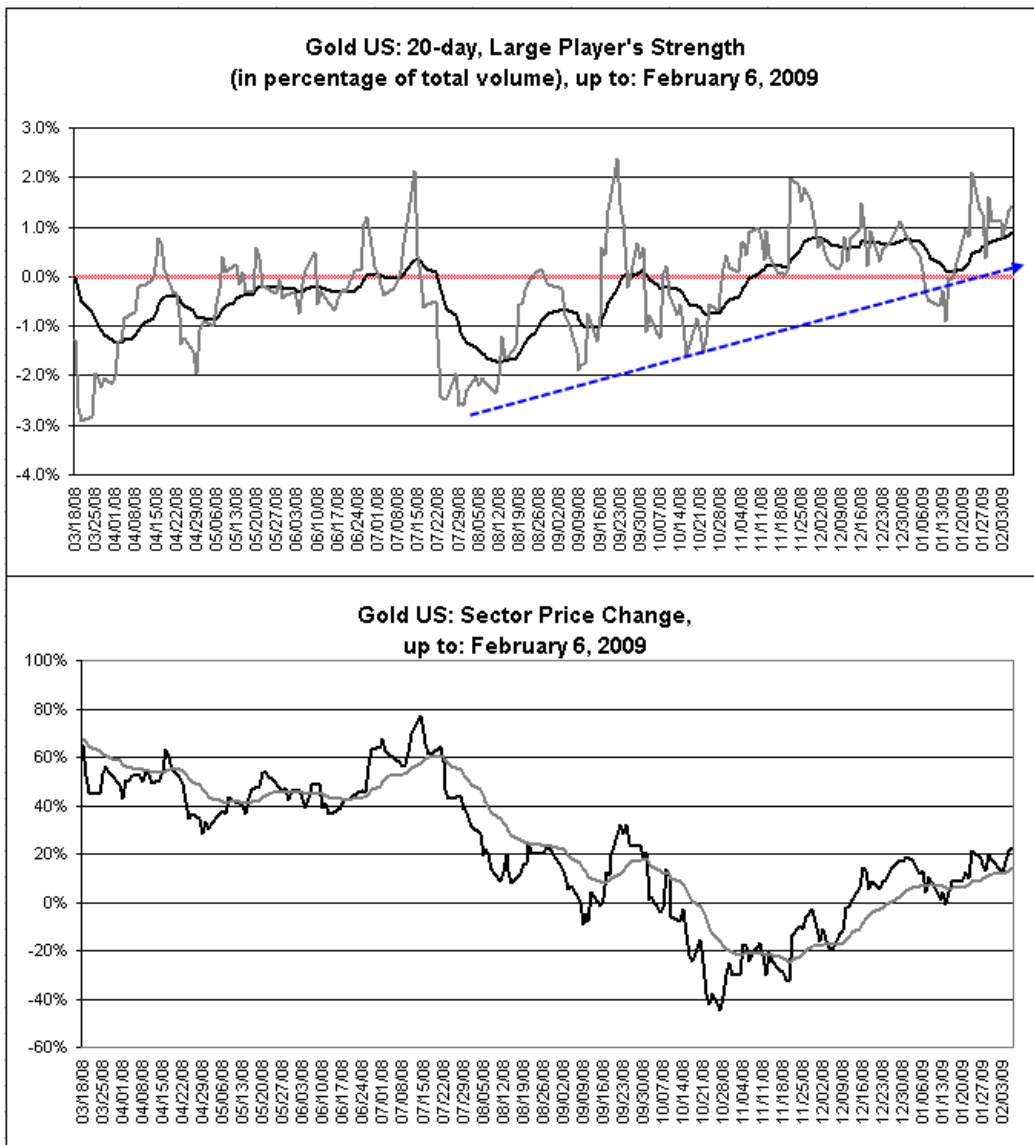


Figure 3: Money Flow for the five gold stocks below traded in the US market



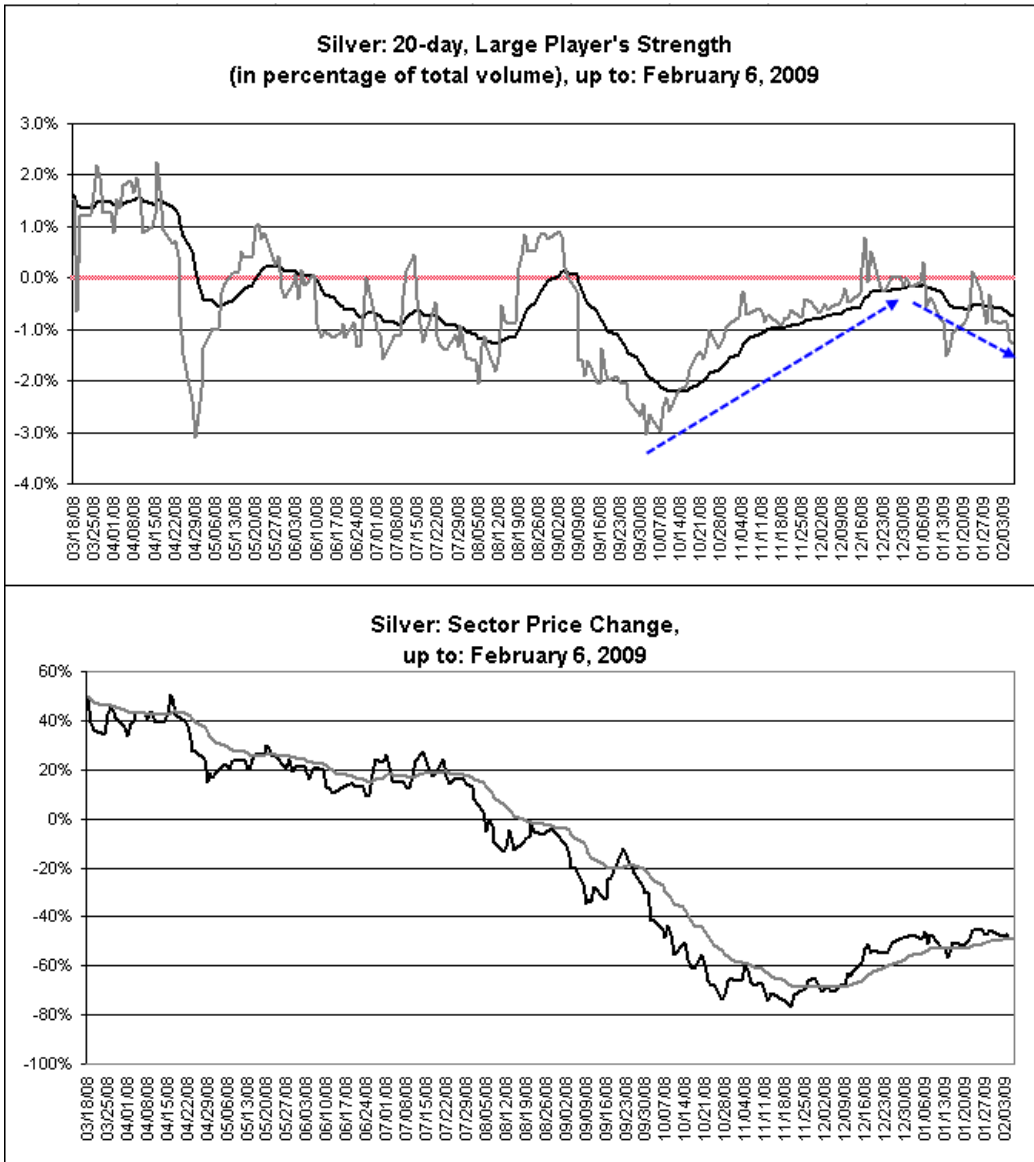
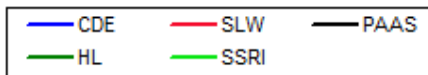


Figure 4: Money Flow for the five silver stocks below traded in the US market



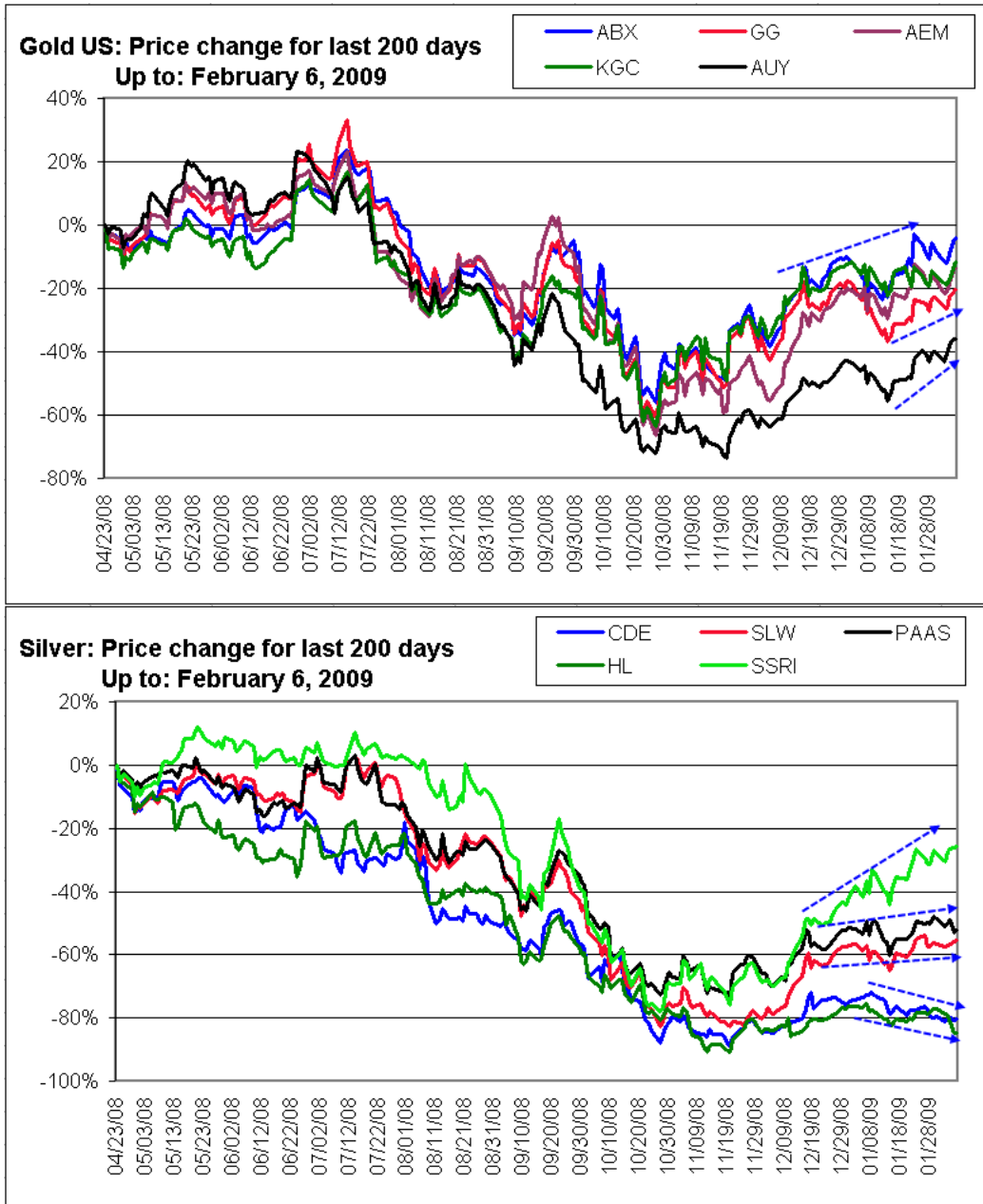


Figure 5: Silver VS Gold miners price evolution

Figure 5 shows that gold miners reversed quicker than silver miners. However, Figure 6 shows that although the money flow is positive for gold miners, it is now mostly negative for the silver mining firms.

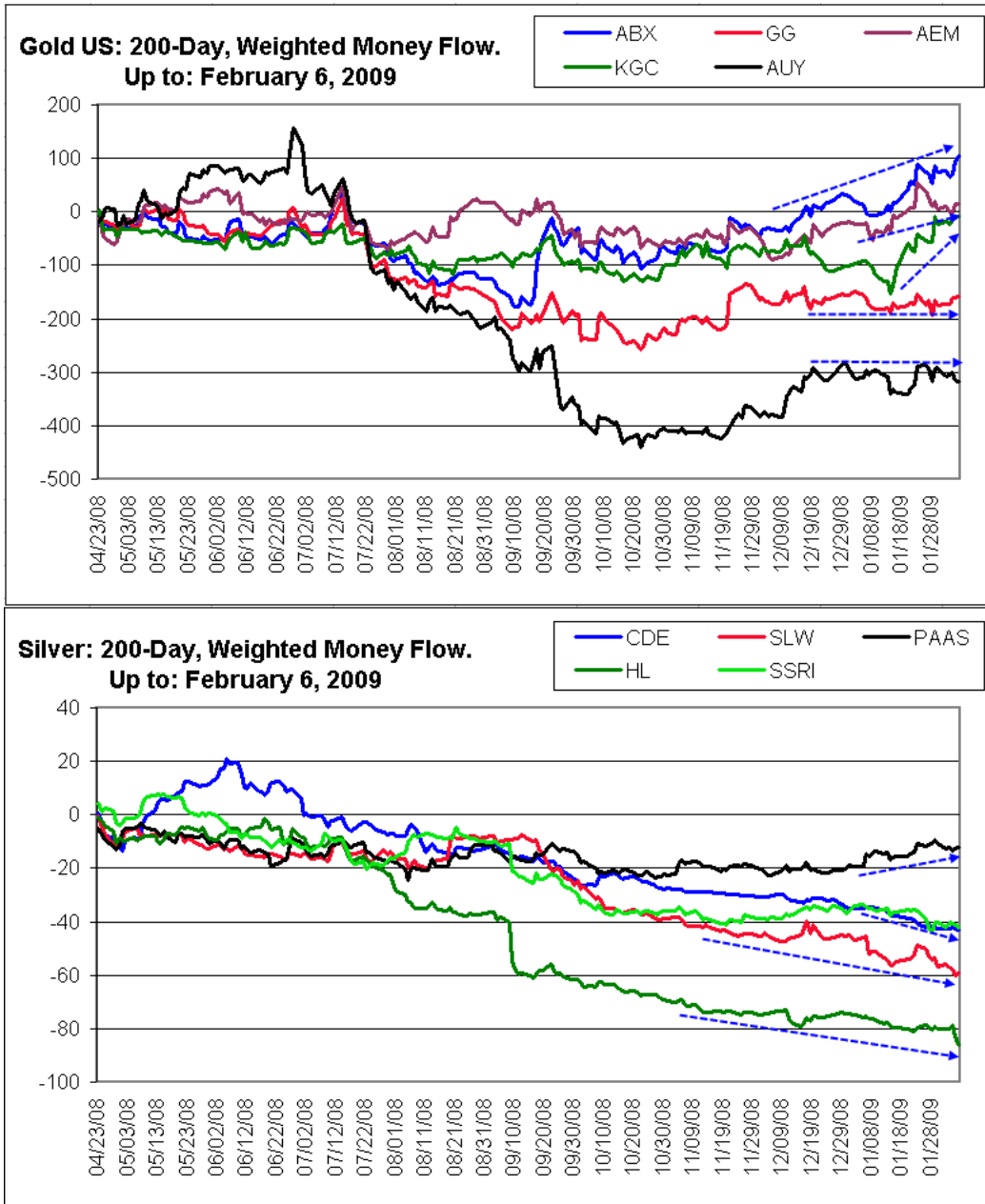


Figure 6: Silver VS Gold miners' money flow

If we compare in Figure 7 five gold miners that are listed both in Canada and in the US, we can clearly see that the money flow measured on the data received from the Canadian listings is much stronger than the one received from the US listings. This shows that the weaker the currency becomes (as the Canadian \$ has), the keener are investors to purchase gold stocks. This could mean that the major driver for investing in precious metal companies is as a hedge against a fall in major fiat currencies.

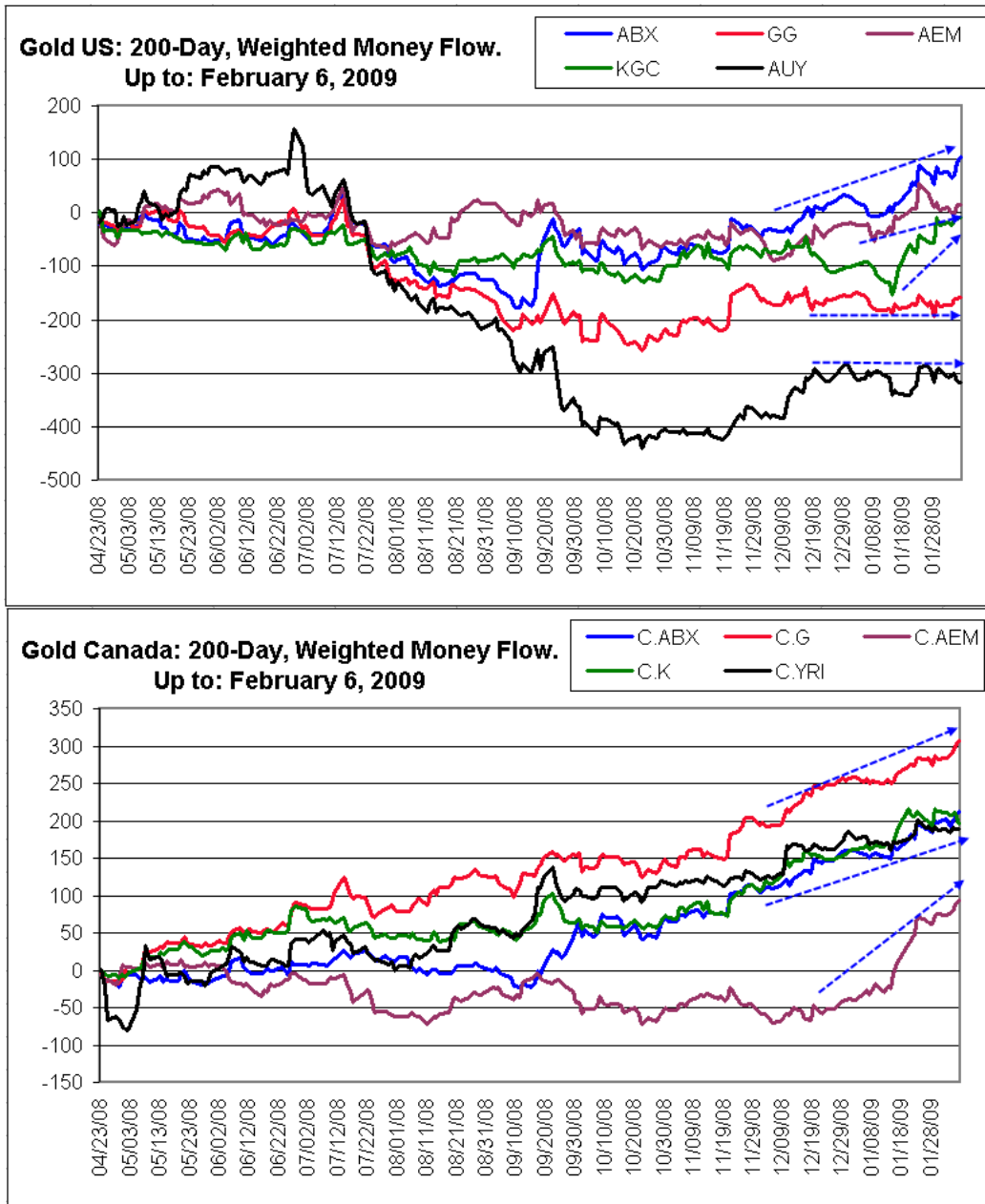


Figure 7: US listed VS Canada listed Gold miners' money flow

This comparison also applies to SLW, as both the Canadian and the US listed data offered different Effective Volume patterns at the end of last year - See Figure 8 - as if traders had been selling the US listed stocks to invest in the Canada listed one. More recently, the last two weeks have shown an increased selling pressure of SLW shares both in the US and in Canada.

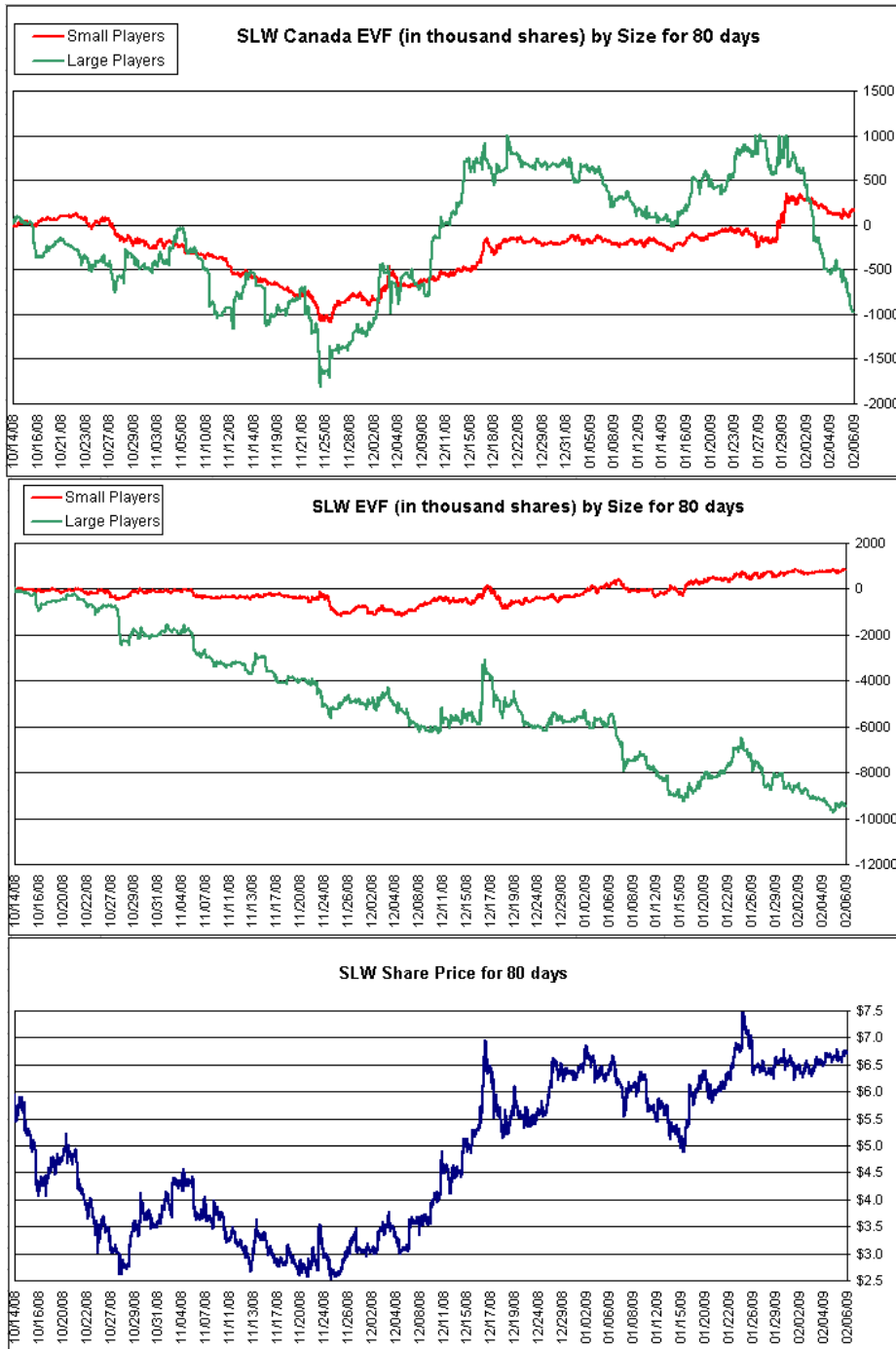


Figure 8: SLW, US and Canadian listings