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Tim Worstall, Contributor
I write about business and technology.

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Why Warren Buffett Doesn't Invest in Gold

I thought this was an excellent little piece (it comes from the shareholder letter) by [Warren Buffett](#) explaining why he's not an investor in gold. In fact, there's a way to read it which says that no one is an investor in gold: there are only speculators [in the metal](#).

“ Today the world's gold stock is about 170,000 metric tons. If all of this gold were melded together, it would form a cube of about 68 feet per side. (Picture it fitting comfortably within a baseball infield.) At \$1,750 per ounce — gold's price as I write this — its value would be about \$9.6 trillion. Call this cube pile A.

Let's now create a pile B costing an equal amount. For that, we could buy all U.S. cropland (400 million acres with output of about \$200 billion annually), plus 16 Exxon Mobils (the world's most profitable company, one earning more than \$40 billion annually). After these purchases, we would have about \$1 trillion left over for walking-around money (no sense feeling strapped after this buying binge). Can you imagine an investor with \$9.6 trillion selecting pile A over pile B?

Buffett goes on to make the obvious point that investors in those productive assets gain income from them. Investors in gold might get a store of value (although that rather depends upon when you buy and sell) but investors in productive assets are gaining rents, incomes, dividends over the years.

Further, when you're looking to the long term, those various incomes will almost certainly, when compounded, return much greater sums of money to the investor than whatever the straight price of gold is likely to be in the future.

And as I've already said, it's possible to go further than this too. Everyone who buys gold is essentially a speculator. For the only possible route to profit is by guessing (you might have very good information, might even be correct, but it is still a guess) on what people of the future believe the value of gold is.

This is, I submit, different in form from investment, which is to look at the net

present value of returns to investment. What are the profits that we're going to get, the rents, the income, and what is that worth to us today as against the price we have to pay for it today?

Yes, there are guesses in there too: what are future interest rates for a start. But I do think it is possible to make this distinction. Perhaps not an absolute one, investment and speculation aren't different enough to be different categories, but they are different enough to be distinguishable. Speculation is a bet upon what values people in the future will place upon things. Investment is more a look at cash flows and incomes over the years from the ownership of a productive asset.

And as we all know, Warren Buffett is an investor, not a speculator.

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