Why Buffett thinks investing in gold is stupid

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By Jeff Reeves

GLD 0.45%

Perhaps my favorite take on gold investing comes from Warren Buffett, the iconic investor behind **Berkshire Hathaway.** Delivered at Harvard in 1998, it goes a little something like this:

"(Gold) gets dug out of the ground in Africa, or someplace. Then we melt it down, dig another hole, bury it again and pay people to stand around guarding it. It has no utility. Anyone watching from Mars would be scratching their head."

The idea is simple: There is no use for gold, only some arbitrary "value" we place on it. Sure, gold was historically used as currency — but why not Cowry shells, which were one of the earliest forms of currency in China? Just because it's rare and some people value it doesn't mean that gold is an "investment," especially to someone like Warren Buffett who is concerned with statistics like book value and cash flow.

More recently, in 2009, he echoed these thoughts in a CNBC interview. He was asked, "Where do you think gold will be in five years and should that be a part of value investing?"

"I have no views as to where it will be, but the one thing I can tell you is it won't do anything between now and then except look at you. Whereas, you know, Coca-Cola (KO) will be making money, and I think Wells Fargo (WFC) will be making a lot of money, and there will be a lot — and it's a lot — it's a lot better to have a goose that keeps laying eggs than a goose that just sits there and eats insurance and storage and a few things like that.

For the record, gold was around $900 then, and has tacked on about 45%; Coke stock is up 100% and Wells Fargo is up 200%. That doesn't include dividends, or subtract the cost of ownership that Buffett points to.

Another great line from Warren Buffett about gold came in October 2010, when he told

Ben Stein:

“You could take all the gold that’s ever been mined, and it would fill a cube 67 feet in each direction. For what it’s worth at current gold prices, you could buy — not some — all of the farmland in the United States. Plus, you could buy 10 Exxon Mobils (XOM), plus have $1 trillion of walking-around money. Or you could have a big cube of metal. Which would you take? Which is going to produce more value?”

Gold is right back to where it was in late 2010 when that interview aired, at around $1,350 an ounce. Meanwhile, XOM stock is up 35% not counting dividends, and farmland continues to appreciate at a rapid rate. (For instance, one report says Iowa farmland just jumped 17% in six months.)

It's hard to tell what the future holds for gold prices. I remain very bearish based on cascading risk of redemptions out of asset-backed ETFs like the **SPDR Gold Shares GLD,** 0.45%.

But one thing is for sure: Buffett will continue to sit out the gold rush. And in the long run, you could do much worse than follow his lead.

Jeff Reeves

Jeff Reeves writes the "Strength in Numbers" investing column for MarketWatch.