Why Investors Should Heed Warren Buffett's Views on Gold

Description

One of the world's greatest investors, Warren Buffett, has expressed considerable disdain for gold as an investment. Its recent volatility makes it easy to see why: it is now down by 40% from its 2011 peak.

Buffett is renowned for his negative views on gold: "[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."

It is this lack of utility that I believe makes it an asset that investors should avoid.

Let me explain why.

Now what?

Basically, gold has no utility because it has no untapped intrinsic value, which means that it is only worth what people are willing to pay for it based upon a perception of its value rather than its value as product that can be consumed. This essentially means that while it is believed to be the ultimate store of value, making it the perfect hedge against inflation and economic uncertainty, it really is not because it lacks tangible value.

However, this perception of gold being a store of value among investors is fading fast. Gold continues to languish near five-year lows despite recent geopolitical and macro-economic crises such as the near exit of Greece from the Eurozone and the ongoing economic uncertainty surrounding China. These events should have triggered a sharp uptick in its price.

A number of analysts now expect gold to fall below US$1,000 per ounce over the next year as a resurgent U.S. economy, stronger U.S. dollar, and an impending U.S. rate hike apply further pressure to its price.

As a result of this lack of utility, gold is a poor investment that should be avoided along with gold mining stocks.

This is despite claims that gold miners now appear to be cheap after a sharp sell-off, with big industry names such as **Barrick Gold Corp.**, **Goldcorp Inc.**, and **Yamana Gold Inc.** all trading well below their 52-week highs.

In fact, gold miners are particularly risky because they are a levered bet on the price of gold, which means that as gold rises, the stock prices appreciate at a far greater rate, but it also means the opposite occurs as gold falls in value. With gold expected to fall below US$1,000 per ounce, the carnage among gold mining stocks is far from over.

So what?

What is a better investment than gold?

If you’re seeking a defensive hedge, you can’t go wrong with electric utilities. Many, such as **Canadian Utilities Ltd.** (TSX:CU), pay steadily growing dividends. This is in sharp contrast to gold, which does not pay investors any income. Canadian Utilities has hiked its dividend for the last 42 straight years because the unchanging demand for electricity, its wide economic moat, and the steep barriers to entry for the industry protect its earnings.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

1. TSX:CU (Canadian Utilities Limited)

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