



Why Warren Buffett Rejects Crypto

Description

Lately, the crypto market has been getting routed. Bitcoin fell 37.5% in May and Ether slid 15%. For many investors who just started following crypto last year, it's been a stunning and unexpected thing to witness. But for one investor, it wasn't surprising at all:

Warren Buffett.

Warren Buffett has been offering negative commentary on crypto pretty much ever since it caught his attention. And if you look at Buffett's investing strategy, his entire approach to investing is based on identifying a company's intrinsic value based on earnings, cash flow, and stock price. Bitcoin has no earnings or cash flow to speak of, so naturally, it's not up Buffett's alley. In this article, I'll explore some reasons why Warren Buffett rejects crypto, starting with the most obvious.

No fundamentals

One problem with crypto for an investor like Warren Buffett is that it has no fundamentals. Warren Buffett likes to invest in companies like **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)); that is, he invests in [cheap stocks](#) with high free cash flow and low ratios of price to various fundamentals.

With Bitcoin, you can't perform that kind of analysis. Crypto fans will often cite things like the supply cap and transaction volumes fundamentals, but these aren't really fundamentals in the traditional sense of the word. You can't speak of Bitcoin's earnings, cash flows, or book value. Whatever fundamentals people offer for it are really technical factors on closer examination.

Few social uses

Another problem Warren Buffett has with crypto is that it has little social utility. For a currency to be useful it has to be widely used in legal transactions, and Bitcoin isn't. In a recent *New York Times* article, Paul Krugman pointed out that Bitcoin isn't really used by mainstream businesses. Some companies like **Tesla** and the Valve Corporation have *tried* to accept it but turned around later when it

ended up being more trouble than it was worth.

It's a pretty stark contrast to a company like Suncor Energy, which Buffett invested in until recently. Whatever you think about the oil and gas industry, it's undeniable that Suncor provides gasoline for drivers, fuels for U.S. buyers, and wind-generated clean energy.

Some environmental activists would say that gasoline is in itself bad for society. But it undeniably serves a legitimate purpose: helping people get around. With Bitcoin, the main purpose it serves is to be a vehicle for speculation, and a currency for black markets, which isn't exactly the ideal asset for a [socially conscious investor](#).

Foolish takeaway

The past month has gotten a lot of crypto investors nervous. Many people got into Bitcoin and Ether just last year, and aren't used to the volatility that was observed years ago. If you're in that camp, then a look at history will show that this latest crash is—in itself—nothing to be concerned about. We're still nowhere near Bitcoin's biggest drops ever.

But if you're a follower of Warren Buffett, maybe this selloff should be a wake-up call. Bitcoin isn't the kind of investment that fundamental investors look kindly on.

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