

Farmland Undervalued Versus Gold

These two charts suggest owning farmland may prove more rewarding financially in the years ahead than buying gold.

The top chart shows the long-term correlation between gold and the price of Illinois and Iowa farmland. While there has been some divergence at times, for the most part, farmland values move along with gold prices. The main exception was the late 1990s when the federal budget deficits declined and the value of the dollar strengthened.

Bottom line: The price of Illinois and Iowa farmland moves with gold prices 85% of the time. That is a very high correlation.

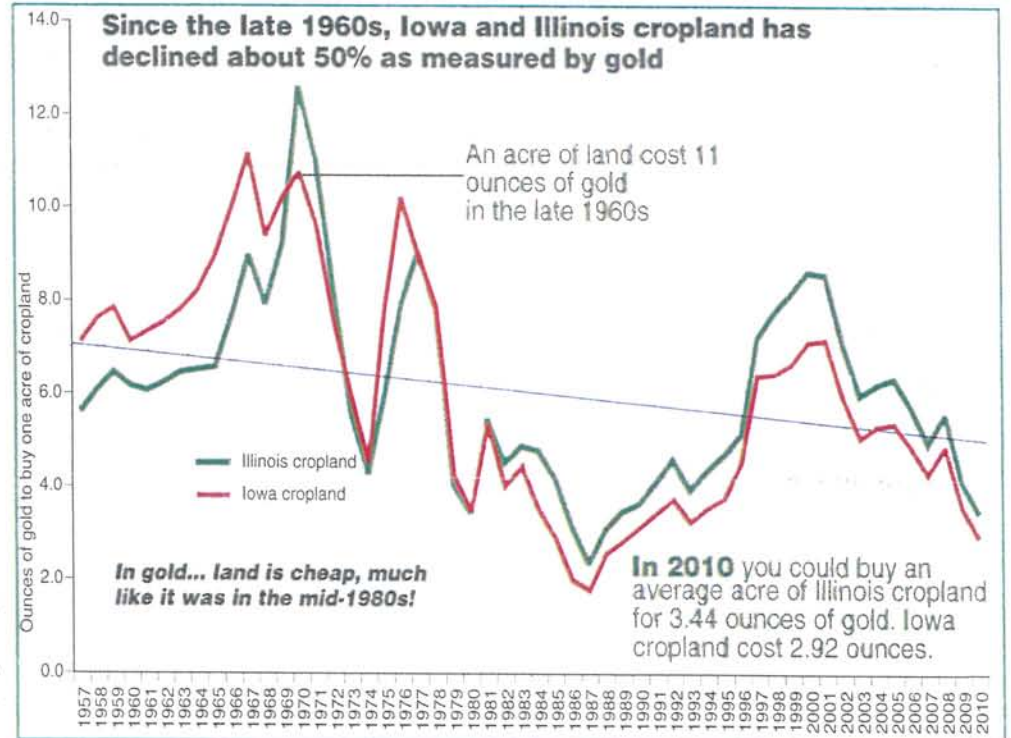
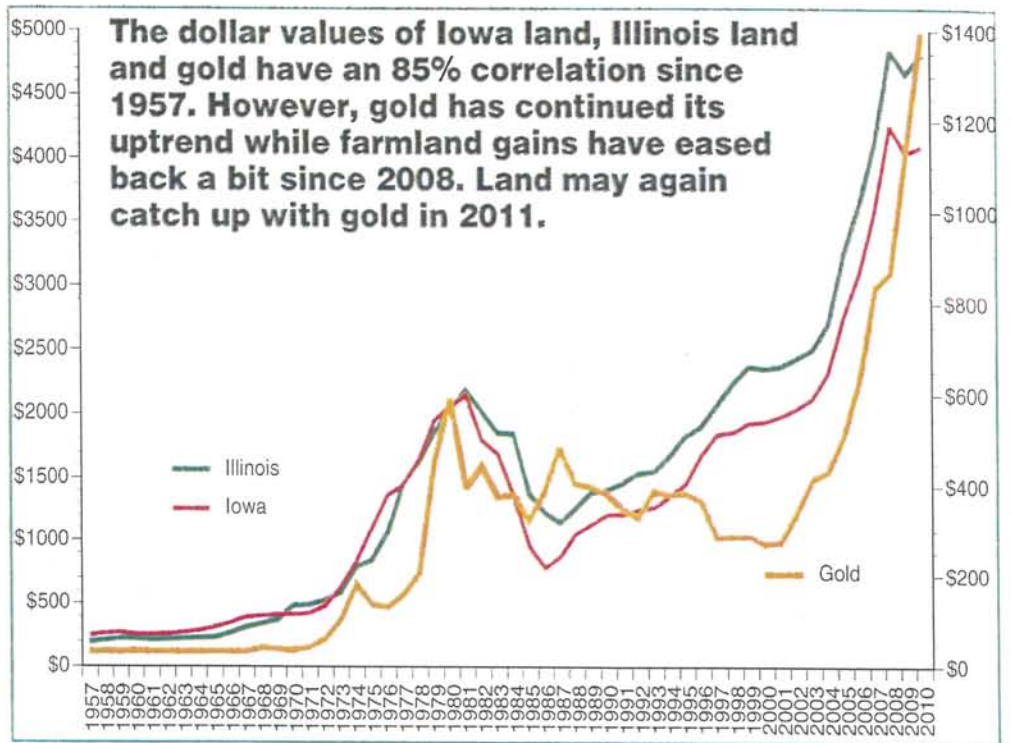
Look at the price of farmland in terms of gold.

The current relationship reflects mid-1980s levels. That's significant because that's when farmland values bottomed following their collapse from the inflation excesses of the 1970s. So, despite record high prices being bid for farmland, it's only the mid-1980s when you look at the value of farmland through the buying power of gold!

All this suggests farmland is well undervalued versus gold.

The ratio should at least return to the long-term trendline if not back to the relationship seen in the 1960s when it took 10 to 11 ounces of gold to buy an acre of Illinois or Iowa farmland.

It does not say how the relationship will return to "normal." There are at least five ways that can occur: 1) Gold can fall while farmland holds steady. 2) Farmland can rally while gold holds steady. 3) Gold can weaken while farmland rises. 4) Gold can fall at a faster pace relative to farmland while both decline. 5) Farmland can rise at a faster pace relative to gold while both move higher. Based on what we know now, our bet is on



that latter. Bottom line: Whatever means the correction takes, all make land ownership appear more attractive than gold ownership.

There are other pluses to farmland ownership versus gold ownership. First and foremost, farmland provides an annual return through either rental payments or by farming the

ground. Gold ownership offers no annual return — in fact it costs money to pay storage, etc.

In addition, there is the tangible security in knowing exactly where your land is at all times. You can inspect it, day or night. Can the same be said for gold in a vault or "stored" in a trading account?