



## Bestselling Author Derek Foster Talks Suncor, Imperial, and Why He Likes Buybacks As Much As Dividends

### Description

Derek Foster is Canada's youngest retiree. By the age of 34, he was able to leave the rat race by building a portfolio of quality stocks and living off the dividend income. Today, Derek is the author of several bestselling books, including *Stop Working, Here's How You Can*, *Money for Nothing*, and *Your Stocks for Free*, and *The Idiot Millionaire*. [You can learn more about him on his website here.](#)

In part 3 of my interview with Derek, we discuss Warren Buffett's venture into the oil sands, the role of commodity stocks within a portfolio, and the benefit of share buybacks. Below is the transcript of our conversation; it has been lightly edited for clarity. (Here's [part 1](#) and [part 2](#).)

**Robert Baillieul: Warren Buffett was in the news with his \$600 million investment in Suncor (TSX: SU, NYSE: SU). What did you make of that transaction?**

**Derek Foster:** I don't know who made that transaction. \$600 million sounds big to you or me, but not actually [in the context of] **Berkshire's** portfolio. I mean when he [Warren Buffett] bought shares in **IBM** it was \$10 billion or \$11 billion that he invested. So it's actually a fairly small investment. I know it doesn't sound like a lot, but it's insubstantial within the universe that he's playing in.

As far as oil and energy, we all know that we're going to need oil for decades. The disadvantage of the oil sands is that they are a high-cost producer. So they're talking about U.S. energy independence — and who knows if that's going to come to fruition. But as a high-cost producer that's a scary position to be in.

But having said that, Suncor is an integrated oil company so I think they're going to make money over time. There's no question I would be very comfortable owning Suncor. I don't. I have my own stake in **Imperial Oil** (TSX: IMO, NYSE: IMO). But they're somewhat similar companies. I can't shed any more light on the issue than that. I wish I knew the future. All I know is that we're going to continue to drive our cars and we're going to need oil and they're going to make money.

**Baillieul: What do you think about commodity companies as an investment in general?**

**Foster:** I'm looking for companies that have a moat. The only companies that have moats in the commodity world are low-cost producers. So if I could buy shares of Saudi Aramco, which I can't because it's owned by the government of Saudi Arabia, that's the low-cost producer.

So as far as commodity stocks go, if a company doesn't have a low-cost advantage I'm not all that interested. The energy plays I have in my portfolio are integrated oil just because it's a little bit more diversified. You have the refining, which hasn't been a great business, but nonetheless they do have that. They have the service stations. They have the production. So over the long term they're going to do very well whether oil goes up or down. Over time they're going to make money.

The ones that I have — I have Imperial Oil and in the States I have **ExxonMobil**, and if you look at both of them they're run very similarly. They pay somewhat modest dividends. But yet they buy back a boatload of shares every year. Imperial hasn't for the last few years because they're expanding in the Kearl oil sands project. They're planning on doubling production over the next 10 years or so. If you take a look at Value Line you see that the share count has been cut in half.

So for me that's as good as a dividend. Because the share count has been cut in half that means that each share I own in the company is twice as valuable. Exxon has spent \$5 billion every quarter buying back their shares and that's non-tax gains. So those companies are going to do very well over time.

What's going to happen to the price of oil? I don't know. You have 2 or 3 billion consumers coming online in China and India. You know the story. Everyone's talking about it and that's not something new. I have no clue where the price of oil is going to go but I know Exxon and Imperial are going to make money in every environment.

**Baillieul: It sort of surprises me to hear you talk so highly about share buybacks given that you live off dividends. Do you prefer buybacks or dividends?**

**Foster:** That's kind of like saying do you prefer a sports car or a minivan? Fifteen years ago I would've much preferred owning the sports car than the minivan because I was a young, single guy. But today, I'm 40 now, and I have a bunch of kids so I prefer to own a minivan because that serves my purpose.

It's the same thing with stocks; 15 or 20 years ago when I was working, I was really looking for dividends for that stable, steady income to sort of fund my lifestyle. Now my portfolio is much bigger than it was three years ago, five years ago, or 10 years ago. I don't spend all of the money that my portfolio brings in.

I'm pretty certain that Exxon is going to be around 25 years from now pumping oil out of the ground and selling it to people. So if they're regularly buying back shares, to me that's the same as essentially a DRIP [dividend reinvestment plan] where if they pay a dividend I just reinvest the shares. The advantage of the buyback is that I don't have to pay taxes. It doesn't have to go through that tax meat grinder first and it reduces my tax liability.

So if they're buying back shares for me, I'm very happy about that. It's my situation today. Again, 15 years ago, when my portfolio was smaller, I wanted dividends.

### Coming up next

In part 4 of my conversation with Derek, we discuss the future of Canada's coffee icon **Tim Hortons**.

### For a specific stock idea ...

If you're looking for a specific stock idea, The Motley Fool Canada's senior investment analyst has identified his "[Top Canadian Small Cap for 2013 — and Beyond](#)" in a new research report. You can instantly access the report — and see the ticker — by simply [clicking here now](#).

*Disclosure: Robert Baillieul has no positions in any of the stocks mentioned in this article.*

*The Motley Fool owns shares of Berkshire Hathaway and International Business Machines.*

## CATEGORY

1. Investing

## TICKERS GLOBAL

1. NYSE:SU (Suncor Energy Inc.)
2. NYSEMKT:IMO (Imperial Oil Limited)
3. TSX:IMO (Imperial Oil Limited)
4. TSX:SU (Suncor Energy Inc.)

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