



## George Soros Is Betting on the Canadian Energy Sector: Should You, Too?

### Description

George Soros is one of the best investors on Earth.

In 1973 he founded the Quantum Fund, and over the next two decades Soros went on to generate a 30% compounded annual return. Thanks to that type of performance, he has cemented his place among the world's greatest investors.

Because of his exceptional track record, I always pay close attention to what stocks Soros is buying. And right now he's making some interesting bets on the Canadian energy sector. Let me explain...

### If you don't buy these stocks now, you'll hate yourself later

In recent quarters, Soros has been bullish on oil. That's probably why he has built huge stakes in companies like **Transocean** and **Devon Energy**. These names are leveraged bets on higher energy prices and a good play on an oil patch recovery.

He also just picked up several new positions. Buried inside a recent SEC filing, Soros disclosed big stakes in several oil sand companies including **Suncor Energy Inc.** ([TSX:SU](#))([NYSE:SU](#)), **Cenovus Energy Inc.** ([TSX:CVE](#))([NYSE:CVE](#)), and **Canadian Natural Resources Limited** ([TSX:CNQ](#))([NYSE:CNQ](#)).

As regular readers know, oil sand investors are learning a tough lesson in leverage. Squeezing crude out of Alberta's bitumen deposits is costly. Producers have to dig up tons of tar and muck, then run the mixture through expensive processing facilities.

Because of these high costs, producers run on razor-thin profit margins. When oil prices rise, their thin margins, along with share prices, can soar. But when oil prices fall (as they have recently), this leverage works the other way.

Another big fear is that a socialist NDP government is shaking up Alberta politics. During the election campaign, Premier Rachel Notley vowed to review oil industry royalties, raise corporate tax rates by 20%, and push back against pipeline construction. With some calling for an Iron Curtain to surround

the province, energy investors are nervous.

[oilpatch](#)

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*Source: Yahoo! Finance*

Soros, however, is using the pullback as a buying opportunity and I think it would be wise to follow in his footsteps.

Here's the problem: the average cost to produce a barrel of oil in North America is well above today's levels. You don't need an MBA to crunch these numbers. At current rates, energy outfits are losing money on almost every drop of crude they haul out of the ground.

That's exactly why the current situation won't last. Small drillers will go bust; large producers will cut back production. Eventually, dwindling supplies will put a floor underneath prices.

This is just another example of the classic resource cycle. According to a research note from **Wells Fargo**, there have been four prior instances where the price of oil has been halved since 1980. Each time, crude prices recovered 70% from the bottom after one year on average.

Blue-chip stocks, like Suncor, Cenovus, and Canadian Natural Resources, are a great way to play a recovery. Because of the leverage inherent in their businesses, shares could rise even faster than underlying oil prices. And given that these are some of the largest resource firms in the country, they have the size and scale to survive the industry's current doldrums.

**The smart money is betting on Alberta; should you buy, too?**

But here's one word of warning: the smart money is starting to catch on.

According to recent SEC filings, a number of hedge fund managers, including Ken Griffin, Ray Dalio, and Jim Simons, have been building positions in oil sand stocks. Most notably, famed value investor Warren Buffett also boosted his stake in Suncor earlier this year.

Now, I have to ask, What could have these money mavens so excited? I'd say it could only mean one thing: they see a huge rally ahead.

## CATEGORY

1. Energy Stocks
2. Investing

## POST TAG

1. Editor's Choice

## TICKERS GLOBAL

1. NYSE:CNQ (Canadian Natural Resources)
2. NYSE:CVE (Cenovus Energy Inc.)
3. NYSE:SU (Suncor Energy Inc.)
4. TSX:CNQ (Canadian Natural Resources Limited)
5. TSX:CVE (Cenovus Energy Inc.)
6. TSX:SU (Suncor Energy Inc.)

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