



Warren Buffett Just Approved This Canadian Stock

Description

Warren Buffett is a picky investor. It's why he's been able to rack up annual returns of more than 20% for *decades*. His favourite holding period, he claims, is forever. So when he makes a big purchase, you should pay attention.

This year, Buffett's holding company, **Berkshire Hathaway Inc.**, acquired 10.8 million shares of an iconic Canadian company. The purchase, which totalled more than \$500 million, scooped up nearly 1% of the entire company.

Buffett hasn't typically invested in Canadian companies, so such a large bet is notable. Even more interesting is that the company in question operates in the oil industry, a segment of the market that has experienced intense pain and scrutiny this year. It appears that Buffett may be adhering to [his own advice](#): buy when others are fearful.

Surviving the storm

The stock Buffett loaded up on was **Suncor Energy Inc.** ([TSX:SU](#))([NYSE:SU](#)). On the surface, this seems like a risky bet. For years, the Canadian energy sector has been in shambles, wracked by pipeline bottlenecks, uncompetitive pricing, environmental regulation, and regional oversupply.

Since mid-2014, Suncor stock has returned roughly 0%, which is actually very impressive. Over the same period, oil prices were cut in half while competitors like **MEG Energy Corp** and **Cenovus Energy Inc** have seen their share prices fall by 70% or more. Remaining flat was quite an accomplishment for Suncor.

How was Suncor able to survive the recent oil bear market?

What Buffett likes

Suncor's secret weapon is its integrated approach. Integrated oil companies control the entire value

chain. In most cases, they explore and drill for oil, transport and refine it, and finally deliver it to the end customer. Vertical integration has some incredible benefits, chief of which is insulation from market volatility.

For example, when pipeline's were flooded with supply in late 2018, and local pricing fell by 50% or more, Suncor was barely impacted because the company owns its own pipelines and thus never had to bid to the death to secure pipeline capacity.

Additionally, when oil prices collapsed in 2014, Suncor stock was relatively unscathed due to its refining segment. Typically, refinery margins rise when oil prices fall. If you own refineries, as Suncor does, you can offset pain in one segment with gains in another.

With Suncor stock, Buffett doesn't need to bet on one segment of the market. Integrated companies like this are the best way to invest in energy while mitigating most of the macro risks.

A word of caution

Buffett may be one of the best investors of all time, but he doesn't have the best track record when it comes to energy bets.

In 2008, at the peak of the oil price boom, Buffett lost nearly \$3 billion by betting on **ConocoPhillips**. "I bought a large amount of ConocoPhillips stock when oil and gas prices were near their peak," he reflected afterward. "I in no way anticipated the dramatic fall in energy prices that occurred in the last half of the year."

Following Buffett on his Suncor bet may prove different, but make sure you diversify your portfolio with other wealth-generating stocks that can stand the test of time.

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