TFSA Investors: I Wouldn't Follow Warren Buffett Into This Industry

Description

For Tax-Free Savings Account (TFSA) investors, it may seem like a good idea to follow Warren Buffett into or out of specific industries he's set his sights on over the years. But if you fail to put in your own homework, you could stand to take a massive hit to the chin.

Copycat investing could burn TFSA investors

You see, it's never a good idea to follow an investment guru's moves blindly.

Buffett has been backing up the truck on airlines, banks, and has been nibbling away at some of the hard-hit oil stocks over the years.

If you followed in his footsteps, you're probably in a world of pain right about now, as it seems as though many of Buffett's favourite industries have been taking on a brunt of the damage amid the coronavirus pandemic.

While the airline and banking industries may prove to be smart investments at these depths after COVID-19 falls into the rear-view mirror, it's difficult to imagine a scenario that sees the oil industry returning to pre-2020 (never mind pre-2014) levels anytime soon.

TFSA investors should be wary of catching the falling knife in the ailing oil patch

The oil industry looks to have been crippled after the one-two punch of the coronavirus demand shock and the Saudi-Russia oil price war that's since been resolved. Despite the recent OPEC production cut, oil prices have continued on their collapse, falling to unprecedented lows over the weekend, with West Texas Intermediate (WTI) currently sitting at the US$15 level.

At these depths, the Canadian oil producers are under an unfathomable amount of pressure. Many poorly capitalized junior oil firms were already feeling the heat while WTI was at US$40.

With the tides going out on the Albertan oil patch, even the high-quality integrated plays like **Suncor Energy** (TSX:SU)(NYSE:SU) are starting to look uninvestible for TFSA investors, even with Warren Buffett's stamp of approval.

With a stable operating cash flow stream, Suncor has long been viewed as one of the best players in the Albertan oil patch. But as in the sports world, there's little gratification in being the best player on a lousy team.

The longer WTI remains in the teens, the harder it will be for Suncor stock to hold its own as budget cuts mount and oil sands sentiment looks to fade to new lows.

Suncor was positioned to survive and thrive in a lower for longer oil price environment, but with WTI in the teens and WCS well under the $5 mark, the long-term thesis on Suncor doesn't look like it'll hold up, as growth projects may prove to be uneconomical for a lot longer than originally expected.

Foolish takeaway

With lower refining margins coming down the pipeline and muted growth expectations, some see Suncor's handsome dividend as being suspect as it looks to break the 10% mark again.

For now, however, Suncor's dividend looks safe thanks to integrated operations that should keep the company afloat as WTI falls to the low teens.

In any case, TFSA investors should resist the urge to follow Buffett into Suncor stock. It's just too volatile, and given the unpredictable environment, the stock could crash harder before it has a chance to bounce back.

If you've done your homework and are seeking to lock-in a massive dividend yield, though, it may make sense to scale into a position as WTI looks to fall into the single digits.

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