



Warren Buffett Got the Market Right in 2020

Description

When the pandemic struck the world in March, a wave of panic run down the stock market, and investors rushed to sell. Nobody knew how the pandemic will impact the economy and businesses. The only thing investors could trust was hard cash or gold. Even Warren Buffett sold off some of his stocks and was a picky buyer during this crisis. Many analysts criticized his lack of inactivity, but he got the market right, even in the 2020 crisis.

Buffett got it right once again

Warren Buffett has been riding the bulls and bears of the market for over 70 years. In his lifetime, he has seen many market crises and made money in most of them. He also made mistakes and learned from them. When the market crashed in March, he observed from the sidelines, as he knew panic selling would create many golden geese for a value investor like himself.

While he was studying the markets for value, he knew where there wasn't any, and that was airlines. You don't need to be Buffett to know that. The airline industry has a track record of bankruptcies and consolidation in crisis, and this was the biggest crisis the industry ever saw. Hence, he sold \$6 billion worth of stake in the top four U.S. airlines. Buffett was [right to sell](#), as airline stocks have to date not recovered from the sell-off. While they did see an upside on COVID-19 vaccine news, it was short-lived, as their fundamentals remain bleak.

He encashed his money from airlines and put it in energy stocks like **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)) and **Dominion Energy's** natural gas transmission business.

Buffett bets on Suncor: Investors finally see hope

In June, Buffett bought another five million shares of Suncor and increased his investment to about US\$217 million. To give you a background of Suncor, it is a major oil sands producer. It has an integrated model that benefits both ways when the oil price rises and when it falls.

Suncor owns offshore oil production assets that benefit when oil prices rise. Its oil fields have a long life of 26 years. Hence, it can start and stop production without worrying about its fields depreciating.

Suncor also operates refineries and distributes refined petroleum products like jet fuel, diesel, and gasoline. This downstream business benefits when the oil price falls.

However, the pandemic created a unique situation where the oil demand did not increase even when oil prices plunged to US\$36/barrel in October from US\$40. Following OPEC's suggestions, Suncor reduced its production to bring oil supply in line with demand. The oil giant reduced its capital spending and operating costs, cut its dividend by 55%, and increased its liquidity to withstand the pandemic.

Buffett knew that oil demand will return, and Suncor will be among the biggest beneficiaries. It's not like Buffett hasn't lost in oil stocks. These stocks are volatile and even hold the risk of bankruptcy. For instance, Suncor stock hasn't yet recovered to the level before the 2008 market crash. Oil stocks are a risk when bought at their highs but an opportunity when bought at their lows.

Betting on Suncor stock

In March, Suncor stock fell 63% to its 2008 level after the market crash and was trading in the \$20-\$24 range. But oil stocks plunged from August to October, as OPEC eased production cuts in hopes of the return of air travel. Many analysts doubted Buffett's decision to stay invested in Suncor.

But Buffett is a visionary. He doesn't let short-term headwinds move his long-term judgments. In November, Suncor stock jumped 50% on vaccine news, as oil price surged to US\$47. The International Energy Agency (IEA) expects gasoline and diesel fuel demand to return 97-99% of 2019 levels by the end of 2021, while jet fuel demand will take time to return.

As oil demand increases, Suncor's revenue will surge, and so will its stock price. By 2018, Suncor's stock surged 140% from its 2008 low. It increased its dividend per share every year at a CAGR of 22% between [2009 and 2018](#). If Suncor replicates even half of this growth in the next 10 years, your \$10,000 can become \$17,000, and the annual dividend can grow from \$377 to \$977.

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