

# THE WALL STREET JOURNAL.

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**Warren Buffett Has Been  
Betting Big on Oil. It's Time  
to Find Out Why.**

One of the most successful stock pickers of all time admitted years ago that he was ‘dead wrong’ on an earlier oil-company investment. What’s changed? The answer could come this weekend.

*By*

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May 4, 2023 5:30 am ET

Not long ago, Warren Buffett seemed like he was mostly done with oil stocks. The renowned investor lost big on an oil-company investment in 2008, and bailed out of another in 2014. He assured his shareholders he had learned his lesson.

Then, last year, Mr. Buffett built up a fresh \$39 billion bet.

At this weekend’s annual gathering of shareholders of his company, [Berkshire Hathaway](#), Mr. Buffett is certain to face questions about his drastic about-face. Investors hope Mr. Buffett and his lieutenants will outline the thinking that led them to build a massive stake in two of the Permian Basin’s biggest producers, and explain what they think the future looks like for oil—and the companies that drill for it—as the world looks to lessen its dependence on fossil fuels.

And can he explain what’s different this time around?

Mr. Buffett spent 2008 amassing a sizable stake in oil producer [ConocoPhillips](#). When the global recession hit, oil prices—along with ConocoPhillips’s stock price—came crashing down. Berkshire had its worst year since Mr. Buffett took over the company in the 60s.

“So far, I have been dead wrong,” Mr. Buffett, Berkshire’s chairman and chief executive, [lamented](#) to shareholders in early 2009.

Berkshire tried again. It invested in [Exxon Mobil](#) several times over the following years, only to dump the entirety of its stake in 2014, when oil prices began what would wind up being one of their worst pullbacks in modern history.

“We will not be buying, very often, oil and gas stocks,” Mr. Buffett said at Berkshire’s 2015 shareholder meeting.

Then [Occidental Petroleum](#) caught Mr. Buffett's eye.



Vicki Hollub, chief executive of Occidental Petroleum, has focused on paying down the company's debt load, paying dividends and buying back the company's stock—moves that analysts and investors say likely resonated with Warren Buffett.

PHOTO: F. CARTER SMITH/BLOOMBERG NEWS

### Occidental Chief Executive Vicki Hollub

was in her Jeep Wrangler in March 2022, on her way to watch a college baseball game. Occidental shares had been ripping higher, but no one knew why. Her phone rang. She was about to get the answer.

“Vicki, this is Warren,” Mr. Buffett said, according to an account of the conversation Ms. Hollub shared at a symposium dinner in November. “We just bought 10% of your company.”

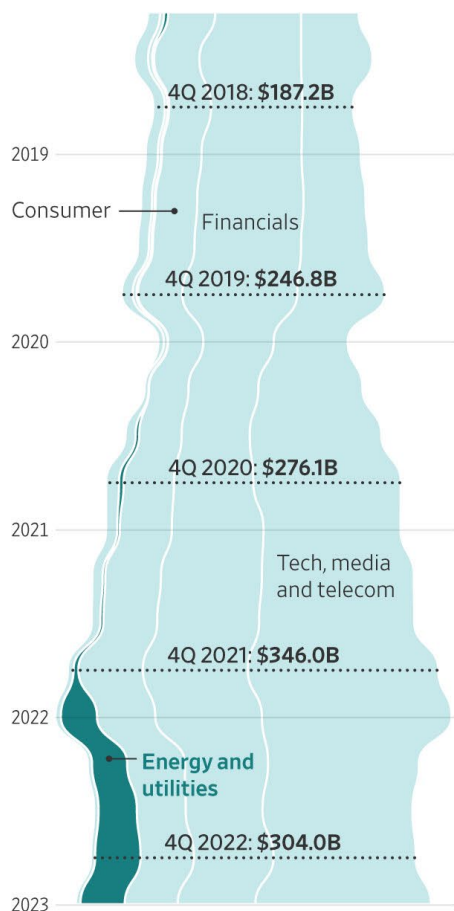
That call marked the beginning of a big binge on oil stocks for Berkshire. Mr. Buffett's company went back to buy more Occidental shares later that month, in May and in June. Even as oil prices fell from a peak, Berkshire kept buying, making additional investments in July, August, September and March 2023. It

also increased its stake in a much larger Occidental rival, [Chevron](#), in the first three quarters of the year.

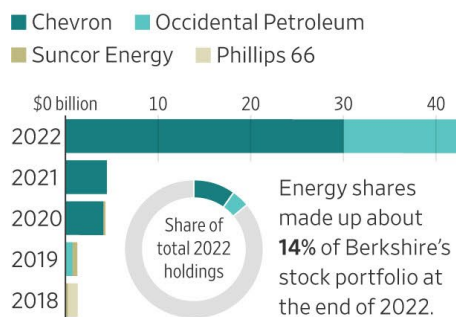
After a [flurry of investments](#) over the past year, Berkshire has become both Occidental and Chevron's biggest shareholder. Energy shares made up about 14% of Berkshire's stock portfolio at the end of 2022—the highest share going back to at least 2000, according to an analysis of company filings.

After mostly swearing off energy stocks, Warren Buffett has re-entered the sector with large investments in Chevron and Occidental Petroleum.

### Quarterly market value of Berkshire Hathaway's public holdings, by sector



### Annual market value of Berkshire Hathaway's energy holdings



Note: 2023 figures based on latest available disclosures. Sectors are classified according to the Global Industry Classification Standard of S&P Global Market Intelligence.

Source: S&P Global Market Intelligence analysis of Berkshire Hathaway public-holdings disclosures

Mr. Buffett's followers may get some more clarity on Berkshire's investments in the energy industry on Saturday, when he and his right-hand man, Vice Chairman Charlie Munger, take the stage.

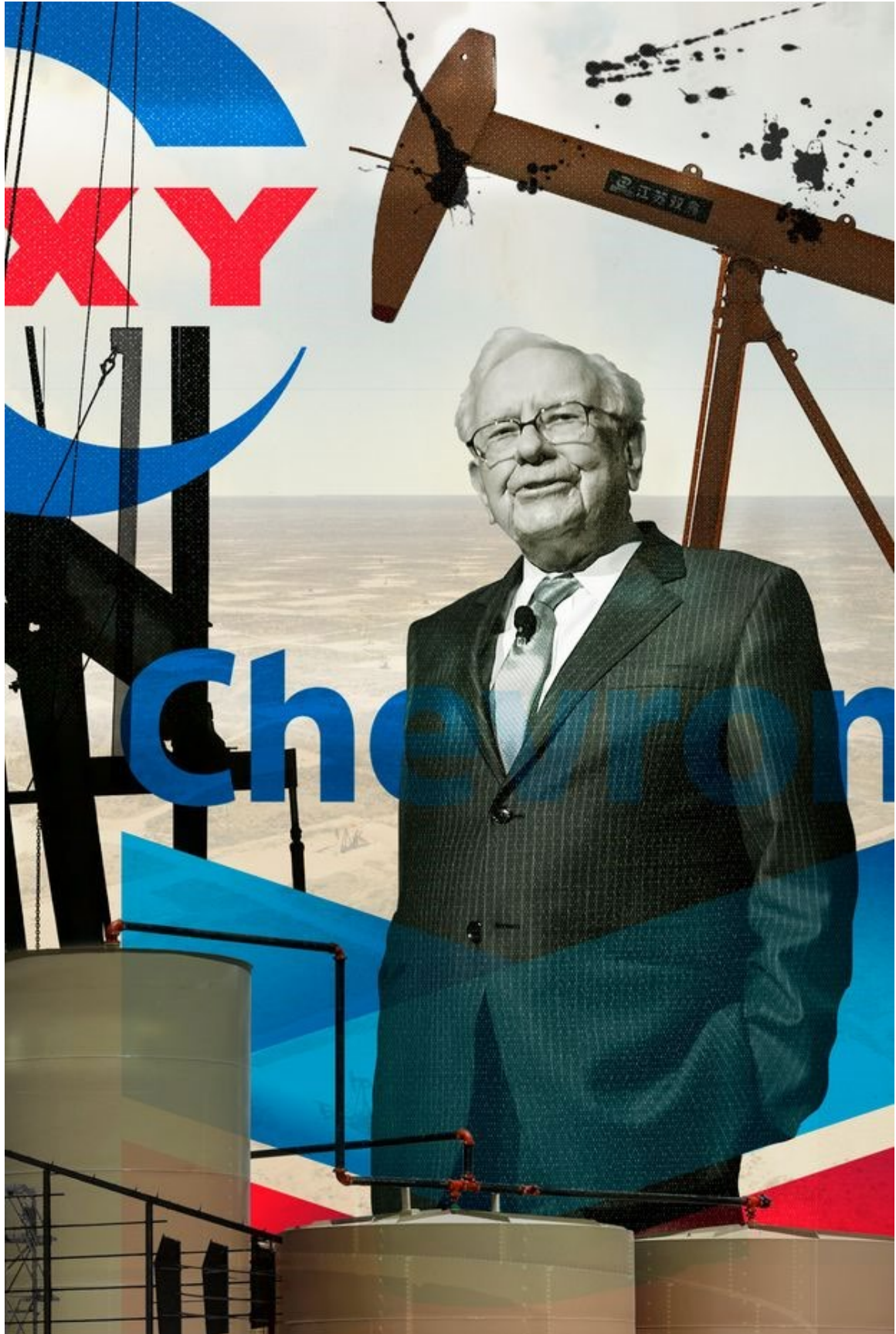
Greg Abel, Mr. Buffett's designated successor, and Ajit Jain, the head of Berkshire's insurance operations, are also to field questions from the audience at the meeting.

It's been a busy year for Mr. Buffett. The 92-year-old [flew to Japan](#) in April to meet with the heads of five trading houses that Berkshire has invested in. His company also completed its biggest deal since 2016 in October, when it finished acquiring insurer Alleghany, and went on [a buying spree](#) in the stock market—spending a record \$68 billion purchasing stocks in 2022. Berkshire's investments in Occidental and Chevron stand out as some of Mr. Buffett's biggest bets during that stretch.

Occidental shares have climbed 5% through Wednesday since Berkshire first disclosed its stake in the company in March 2022. Chevron shares have fallen 1.8% since Berkshire disclosed significantly increasing its stake in April 2022.

“The way they've gone in on the energy business...you'd think a boom era is going on,” said Cole Smead,

CEO and portfolio manager at Smead Capital Management, which owns Berkshire shares.



Warren Buffett has said that the world will need fossil fuels for many years to come. ‘Just try doing without 11 million barrels a day and see what happens tomorrow,’ he said.

PHOTO ILLUSTRATION: DANA SMITH

That hasn’t been the case—making it all the more striking that Mr. Buffett, [one of the most successful investors of all time](#), has chosen this moment to embrace oil stocks.

U.S. crude oil prices have fallen to around \$69 a barrel after surging above \$130 a barrel last year following Russia’s invasion of Ukraine.

Society’s attitude toward fossil fuels has also changed over the years. Businesses have come under [growing pressure](#) to rein in their carbon emissions. At Berkshire, shareholders including the California Public Employees’ Retirement System have put forward a shareholder resolution demanding the company assess and disclose the risks it faces from climate change and the transition to clean energy. Shareholders will vote on the proposal, which is similar to proposals put forward in previous years that were [soundly defeated](#), at the company’s meeting Saturday.

Perhaps the most surprising aspect of Mr. Buffett’s investment is that energy stocks have mostly been money-losing investments in recent years. Boom-and-bust cycles, waves of bankruptcies and worries about the future of fossil fuels have contributed to the S&P 500 energy sector significantly underperforming the broader market since oil prices hit their all-time high in 2008.



Energy stocks have trailed well behind the broader market since oil prices hit their all-time high in 2008.

**Percentage change since July 3, 2008\***

- S&P 500
- Energy Select Sector SPDR ETF



\*U.S. crude oil hit \$145 a barrel. Prices then collapsed.

Source: FactSet

“There’s a huge spread between what they’re interested in and what everyone else is buying,” Mr. Smead said of Messrs. Buffett and Munger.

Why, then, has Berkshire made such a big push into energy stocks?

The simplest answer, according to analysts and investors who have followed Mr. Buffett over the years: The investor seems to firmly believe that even as a growing number of companies set ambitious goals to reduce their carbon emissions, the world will continue to need oil. Lots of oil. That should make it a commodity that companies like Occidental and Chevron can profit from selling for years to come.

“I suspect some of it may be connected to a view that the transition away from fossil fuels will take longer than the market expects,” said Bill Stone, chief investment officer at Glenview Trust, a Berkshire shareholder.

Mr. Buffett himself remarked in 2022 that the U.S. didn’t look like it was close to [moving away from oil](#) entirely. He declined to comment for this article.

“If we were to try and change over, in three years, or five years, nobody knows what would happen, but the odds that it would work well are extremely low, it seems to me,” he said at Berkshire’s shareholder meeting last year.

Critics of the energy industry have suggested that anybody who “produced a barrel of oil was somehow something terrible,” Mr. Buffett said then.

Indeed, Berkshire itself faced the ire of some shareholders in 2007 for holding on to its investment in [PetroChina](#). The Chinese oil producer’s parent company was accused of having close ties to Sudan’s government during the Darfur genocide, which began in 2003. Later in 2007, Berkshire disclosed it had dissolved the entirety of its stake, although Mr. Buffett described the move—which netted him a profit of about \$3.5 billion—to Fox Business Network as being “100% a decision based on valuation.”

Despite some people’s moral judgments about fossil fuels, the fact of the matter is, the U.S. would grind to a halt without it, Mr. Buffett said at the 2022 shareholder meeting.

“I mean, just try doing without 11 million barrels a day and see what happens tomorrow,” he said.

Berkshire’s investments in energy over the past year make it clear that, even as technology companies have grown more and more dominant in the stock market, Mr. Buffett “still appreciates old-economy businesses,” said James Shanahan, a senior equity research analyst at Edward Jones who covers Berkshire.

Mr. Buffett didn’t elaborate on the reason for his Occidental and Chevron investments in his most recent direct communication to shareholders: his annual letter, which he released in late February.

Investors who have followed Messrs. Buffett and Munger for years say the two men are highly averse to risk taking.

That’s another reason oil companies might seem like an unusual investment for Berkshire. After all, the companies’ profits are dependent on the price of oil, which in turn is affected by unpredictable factors like the pace of economic growth, the speed at which companies drill for and produce oil and geopolitical shocks that might affect the supply of oil around the world.

Yet Mr. Buffett doesn’t seem to be counting on oil heading to sky-high levels again.

Ms. Hollub “says she doesn’t know the price of oil next year. Nobody does,” Mr. Buffett said at Berkshire’s 2022 shareholder meeting.

Instead, he may be wagering that oil prices will stay within a certain range that makes profits possible for oil companies, said Mohnish Pabrai, founder of the Pabrai Investments Funds and a Berkshire shareholder who met Mr. Buffett in 2008, after winning a dinner with the famed investor at a charity auction.

Many oil companies have said they can be profitable with oil prices trading far below current levels, thanks to advances in technology that have made it easier for companies to extract oil, even in environments that have historically been

tougher to operate in. Occidental, for instance, has said it can turn a profit with oil as low as \$40 a barrel.

“Let’s say, for example, he has a view that in the next 10 years, oil prices will range from \$60 to \$150 a barrel,” Mr. Pabrai said. As long as they mostly stay within that range, Berkshire’s stock investment would likely pay off—or at the least, return more than Berkshire would be able to get from putting that same money in U.S. Treasury notes, he said. The 10-year U.S. Treasury note had a yield of 3.401% Wednesday.

Another likely selling point: Both Occidental and Chevron have dominant presences in the Permian Basin. The region spanning West Texas to southeastern New Mexico is one of the most prolific oil fields in the world, accounting for roughly 43% of U.S. crude oil production in June 2022, according to the U.S. Energy Information Administration.



Chevron has a dominant presence in the Permian Basin. The region spanning West Texas to southeastern New Mexico is one of the most prolific oil fields in the world,

PHOTO: PATRICK T. FALLON/AGENCE FRANCE-PRESSE/GETTY IMAGES

Asked whether Berkshire was likely to hold onto its positions in Occidental and Chevron over the long run, Mr. Munger said at a question-and-answer session in February that “having a big position in the Permian Basin through those two companies is likely to be a pretty good long-term hold.”

Mr. Munger added that he admires both companies.

What’s also clear is that, in the case of Occidental, Ms. Hollub has won Mr. Buffett’s confidence.

While in the past, many oil companies have made the mistake of increasing production as soon as oil prices have turned higher, Ms. Hollub has spent the years following the outbreak of the Covid-19 pandemic focused on paying down Occidental’s debt load, paying dividends and buying back the company’s stock—moves that analysts and investors say likely resonated with Mr. Buffett.

“She’s basically like Buffett in terms of thinking about returning cash to shareholders,” Mr. Pabrai said.

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Occidental has also, with Mr. Buffett’s blessing, invested more than \$1 billion in a [carbon capture](#) process that involves using fans to pull massive amounts of carbon dioxide out of the air, and then funneling that CO<sub>2</sub> deep underground. Though the technology is still evolving, the company says it will help it reach its goal of net-zero emissions by 2050 while allowing it to keep investing in oil extraction.

That may help explain why Berkshire went from owning none of Occidental’s common stock to becoming its largest shareholder in the span of just a couple of weeks in 2022.

Mr. Buffett likely “felt like he could make an investment like that because he had a high level of confidence in her,” Mr. Smead said. Ms. Hollub “just gets it. She’s by far and away the most successful oil exec I’ve ever met,” he added.

Mr. Buffett and Mr. Munger have built Berkshire for the long haul, Mr. Pabrai said.

“When you think about the railroad—100 years from now, it’ll still be cranking,” he said, referring to Berkshire’s BNSF Railway business. “The utilities—they’re going to be around for a long time,” he said, referring to Berkshire Hathaway Energy.

It makes sense, then, that Berkshire’s stock portfolio would include oil companies, which Messrs. Buffett and Munger seem to believe will continue churning out profits for years to come.

“They’re not going to chase the latest fad,” Mr. Pabrai said. “They’re as much as possible looking for no-brainers.”

—*Benoît Morenne* contributed to this article.

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