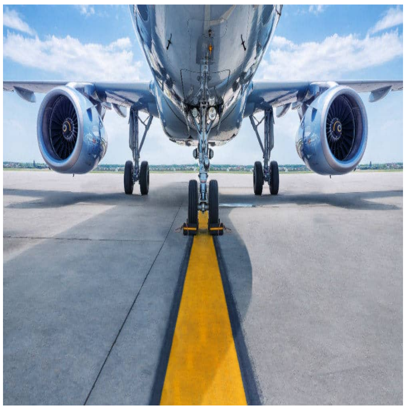

Investors Can Make Huge Money Going Long and Short on the Airline Industry

Description

Every now and then, the stock market values a company completely wrong and presents investors with an opportunity to either buy a stock and make money on the upside or short sell a stock to make a profit from the decline in price.

For investors seeking opportunities in the airline industry, the current scenario between Canada's biggest airlines may make more sense than ever before. To begin with, shares of **WestJet Airlines Ltd.** (TSX:WJA) have recently suffered a rather large decline as a result of the potential labour strike. Given the length of time that negotiations went on for, investors are right to have very low expectations for the financial results of the next half year. For investors who needed to book with certainty, the money went elsewhere.

Enter **Air Canada** (TSX:AC)(TSX:AC.B). At a price of $25 per share, Air Canada trades at one of the lowest price-to-earnings multiples of any company on the market. In spite of this and the increase in revenues (which are expected), investors have still seen shares decline from a 52-week high of more than $29 per share. Clearly, the market is pricing in a downturn in travel, as oil prices continue to move higher, which increases expenses and takes money out of the pockets of numerous customers.

It needs to be understood by the investors that if the essentials cost more money (such as filling up the gas tank to get to work), then there will be less money for vacations and travel. To make things even more interesting, the cost of gasoline has increased drastically in British Columbia, as the trade war between B.C. and neighboring Alberta continues.

For shareholders of Air Canada, the reality is that the travel out of B.C. matters much more than the travel from Alberta (as more long-haul flights are destined for overseas). The high cost of fuel is doing very little to help the airline.

If we take a second look at the market and how it is pricing the shares of each airline, the best approach may not be to take one position, but two: one long and one short.

Shares of WestJet currently offer a dividend yield of no less than 2.75%, which rewards investors who remain patient with the airline that focuses on the client experience. The price-to-earnings multiple remains a very reasonable nine times, which has the potential to increase as time moves forward. The company seems like a sound investment on many fronts.

Air Canada has a substantial amount of downside, as the vulnerability of the airline has never been more clear. With a hungry competitor and rising costs, the airline will have to do a lot more to overcome its client-service issues and meet analyst expectations once again.

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