



Warren Buffett: What's the Deal With Berkshire Hathaway's (NYSE:BRK.B) Airline Divestments?

Description

Warren Buffett shocked the financial world when it was revealed that **Berkshire Hathaway** (NYSE:BRK.A)(NYSE:BRK.B) had been selling airline stocks, just weeks after Buffett stated he wouldn't in an interview conducted by *Yahoo! Finance*. Buffett's mantra is to buy and hold wonderful businesses with the intention of holding them on for the long term. His favourite holding period is forever, so it was perplexing as to why Buffett decided to ditch 13 million and 2.3 million shares of **Delta Air Lines** and **Southwest Airlines**, respectively.

Heck, Warren Buffett added to his Delta stake just a few weeks prior amid the [pandemic-driven sell-off](#), so indeed, many Buffett followers are probably scratching their heads at the Oracle of Omaha's latest selling activities.

Did the pandemic change the long-term thesis of Warren Buffett's favourite airlines? Why did Buffett say he wasn't going to sell airline stocks when asked just a few weeks prior? Is the recent share sale the start of more selling to come? And should Canadians mirror Buffett's latest divestiture by dumping shares of **Air Canada** ([TSX:AC](#))(TSX:AC.B) stock?

Many folks on the Street are speculating as to what Buffett and Berkshire Hathaway may be doing with the recent share sale.

Given shares of the airlines have collapsed in recent weeks, the ["buy high, sell low"](#) actions conducted by Berkshire seem to go against everything that Buffett has taught over the decades. To make matters even more confusing for Buffettarians, the man has kept alarmingly silent of late. And investors should expect radio silence until Berkshire's annual meeting on May 2.

Has Warren Buffett given up on the airlines?

Buffett took a huge hit to the chin, realizing paper losses with his latest publicly disclosed round of selling activity. And while debt will weigh down the U.S. airline stocks as revenues temporarily dip,

potentially by 90% or more, over the coming quarter, I do *not* think that Buffett's long-term thesis on the airlines has changed at all over the last few weeks, even with the devastating impact of the coronavirus.

Warren Buffett *still* owns a sizeable stake in the U.S. airlines.

The latest round of selling is just a bit of trimming after an unsustainable bear market bounce and not the start of an entire liquidation of his airline holdings. He may just be looking to lock in some capital losses for the year with the intention of getting right back in.

Of course, we'll have to wait to hear from the man himself, but if I had to guess, I'd say the airline share sales was not conducted by Warren Buffett himself but someone at his firm that sees more downside ahead for the airlines and the broader markets over the intermediate term.

Warren Buffett may be taking a bit of risk off the table on a bounce

Before you conclude that Buffett has ditched his own investment philosophy, I'd urge investors not to overreact by ditching shares of Air Canada to the curb just because Buffett did a bit of trimming on his airline stocks.

Bear markets tend to be measured in months, not weeks. As such, Warren Buffett may be looking to add to his stake in his favourite airlines at a later point, as he trims unsustainable, abrupt bounces that will inevitably present themselves on the downward road.

More bad news is almost guaranteed to come flooding in during the second quarter, so there's no shame in taking a bit of risk off the table after the massive rally we enjoyed just two weeks ago.

Should Canadians sell Air Canada?

The U.S. airlines are facing an unprecedented amount of pressure. At this rate, they're going to need financial relief very soon.

Air Canada is far less leveraged than your average U.S.-based airlines. Air Canada still has a considerable amount of debt, but it looks reasonably more liquid given the company had not wasted a tonne of cash on share repurchases over the years.

I'm still of the belief that the airlines, notably Air Canada, will survive these dark times and come out roaring on the other end of the curve.

Over the coming months, the stock will likely continue to take a beating, though, so investors should pick their entry points carefully and consider trimming after unsustainable bull traps with the intention of buying back at much lower prices.

Stay hungry. Stay Foolish.

CATEGORY

1. Coronavirus

2. Investing
3. Stocks for Beginners

TICKERS GLOBAL

1. NYSE:BRK.B (Berkshire Hathaway Inc.)
2. NYSE:BRKA (Berkshire Hathaway Inc.)
3. TSX:AC (Air Canada)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Coronavirus
2. Investing
3. Stocks for Beginners

Date

2025/08/25

Date Created

2020/04/06

Author

joefrenette

default watermark

default watermark