Air Canada (TSX:AC) Stock Just Soared 55%: Should You Buy the Bounce?

Description

Don't look now, but **Air Canada** stock (TSX:AC)(TSX:AC.B) just surged 55% off its March 19th lows, as investors seek to pile into the hardest-hit names that stand to have the most upside in a V-shaped recovery from the brutal coronavirus market crash.

While Air Canada stock may be a "must-buy" value stock after its 75% peak-to-trough implosion from a longer-term perspective, investors should avoid "chasing" a name that's drawn in a considerable number of speculating "heroes" that are looking to make a quick buck off near-term momentum.

Air Canada stock: Don't let greed take control

What long-term investors must realize is that Air Canada stock is not for the faint of heart. It's the epitome of extreme cyclicality and could stand to surrender all of the gains posted over the past week should market momentum suddenly reverse. For those looking to build a long-term position in the name, one must not run the risk of playing the game of greater fools (the greater fool phenomenon is real, and no, it has nothing to do with The Motley Fool!) over the near term.

Although the long-term risk/reward trade-off is still compelling after the bounce, there are still far too many unknowns to conclude that the stock has bottomed. Travel and leisure stocks aren't out of the woods yet, and double-digit percentage moves in either direction should be expected as we navigate what's going to be a brutal quarter.

Don't get me wrong. Air Canada stock is still cheap in the grander scheme of things. But that doesn't mean it can't become much cheaper over the coming weeks, especially if more disturbing news causes traders to ditch the stock in droves.

There are just too many uncertainties regarding COVID-19 (such a potential year-end resurgence inthe virus) to form a precise gauge of the intrinsic value of any airline stock. As such, it's more prudentto dollar-cost average your way into a position in a battered airline stock like Air Canada. That means buying incrementally on the dips and selling those sudden, potentially unsustainable bounces that occur along the way.

After a very sudden 55% bounce from the bottom on what I find to be less meaningful news, it'd be foolish (that's a lower-case *f*, folks!) to not at least think about taking a bit of profit off the table, so you can buy back at a potentially better price.

The prudent way to dollar-cost average into Air Canada stock

Warren Buffett is undoubtedly a huge fan of airline stocks over the long term, but even he did some selling on the recent relief rally. In a bear market, it's only prudent to sell bounces just like you would buy a dip in a bull market and not get too greedy, like many others who are subscribing to the V-shaped recovery.

You don't need to be a hero to take advantage of the low valuations that exist in today's market.

However, you need to ensure that you are, in fact, paying a price for a stock that's considerably lower than your estimate of its intrinsic value. That means staying within your circle of competence, not getting too greedy at any single instance, and not looking to businesses that don't rely solely on the eradication of COVID-19.

Everything looks "cheap" in today's market. But there are near-term bull traps out there, and you could get burned you if you start chasing names after sizeable moves with the belief that a bottom is already in.

Foolish takeaway

Although I'm a raging bull on Air Canada stock over the long haul, I'd be more inclined to take near-term profits here rather than doubling down on a position. There hasn't been much good news for the ailing industry over the past few weeks. A lot of things can still go wrong, and if you've got limited cash, you may want to trim and with the intention of adding on a highly probable pullback.

Remember, effective investing in a bear market requires a great deal of patience, skepticism, and ample liquidity. Don't chase stocks and exhaust your cash reserves just because the herd thinks a bottom is in. Recognize the risks and take sudden near-term profits, as they come to be, as you build your long-term position gradually over time. That way, you'll be able to build your long-term position and not be forced to play the game of greater fools over the near term.

Stay hungry. Stay Foolish.

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