



3 Reasons Warren Buffett Won't Buy Air Canada (TSX:AC) Stock

Description

In the past month, there has been speculation that Warren Buffett could take a position in **Air Canada** ([TSX:AC](#)) stock. The “Oracle of Omaha” is well known for his love of airlines, buying up their shares in large quantities over the past decade. Air Canada is not only an airline stock, but one that looks like a bargain, with a (trailing) P/E ratio of just 3.4. That would seem to make it a potential Buffett play.

However, it's quite unlikely that Warren Buffett will buy Air Canada shares. Buffett's recent moves indicate a souring on airline stocks, which wouldn't suggest a desire to scoop up AC on the dip. In this article I'll be exploring the three main clues that Buffett won't be buying Air Canada any time soon.

Reason #1: He's playing it safe

For a while now, market watchers have noted that Buffett behaved differently in the March market crash than in previous crashes. In the past, Buffett was a voice of calm in bear markets, encouraging investors to buy the dip and putting his money where his mouth was.

This time, he's playing things very differently. Charlie Munger recently said in an interview that Buffett isn't looking to buy beaten down stocks on the cheap. Noting that **Berkshire** is “[focused on liquidity](#),” he said Buffett is playing it extremely safe.

“Playing it safe” usually doesn't mean buying cash-strapped, nearly shut-down companies. So if Munger's comments are accurate, they'd indicate that Buffett isn't interested in Air Canada.

Reason #2: He's changing course on airline stocks

Recently, Buffett made waves by [selling](#) about \$300 million worth of **Delta Airlines** stock. Prior to this, he had bought \$45 million worth on the dip. DAL shares declined in value between the two purchases, so Buffett exited part of his DAL position at a loss.

Having recently trimmed the airline exposure in his portfolio, Buffett probably isn't looking to buy more.

While Buffett still holds his favourite airlines, their proportion of his portfolio has decreased. That doesn't bode well for those hoping Buffett will give AC shares a vote of confidence.

Reason #3: His portfolio already has a lot of airlines

A final clue that Buffett won't be buying AC is the fact that his portfolio already has a lot of airlines. Some people have taken this as a signal that Buffett could buy AC, but in fact, it might be the opposite.

Warren Buffett has long been a critic of excessive diversification. Calling it "protection against ignorance," he says it serves to protect investors from poor analysis. According to Buffett, investors make more money when they bet on one company they understand thoroughly instead of diversifying broadly with superficial knowledge. Buffett's own portfolio agrees with this thesis — at least, somewhat.

According to Sean Williams of Fool.com, Berkshire Hathaway owns 48 stocks. That's a reasonably well diversified portfolio, although fairly concentrated compared to, say, Ray Dalio's hedge funds.

Currently, Buffett has several airlines in portfolio. If he still subscribes to the anti-diversification philosophy he expounded on years ago, he's unlikely to add more.

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