



Airline Stocks: Has Air Canada (TSX:AC) Become “Uninvestible” in the Coronavirus Era?

Description

The coronavirus (COVID-19) pandemic has [rendered many segments of the economy uninvestible](#). Many blue-chip market darlings from the pre-pandemic era have suddenly become clouded in a haze of uncertainty, rendering them closer to a speculation than an actual investment.

Warren Buffett bails on airline stocks — but that doesn’t mean you should

The airlines are a prime example of a previously investible industry that’s become more of a speculative bet in the era of the insidious coronavirus. Given the new slate of risks and uncertainties brought forth by the coronavirus pandemic, previously profitable airline stocks may not be right for a majority of investors like Warren Buffett, who have no desire to bet on all-or-nothing scenarios.

That’s a significant reason why Buffett cut his losses in the “Big Four” U.S. airlines in April.

Not only has the short- and medium-term thesis changed on firms at ground zero of the coronavirus crisis, but their long-term fundamentals have deteriorated. Whenever you’re dealing with a potential operational interruption that could span years, the original long-term thesis may no longer hold up.

And the survival of the airlines through this coronavirus typhoon? It’s not even guaranteed, as lockdowns and travel restrictions could occur intermittently for another few years in the race for a coronavirus vaccine.

Air Canada: airline stocks may be less investible, but they’re still worth betting on

That said, airline stocks like **Air Canada** ([TSX:AC](#)) may be a spec bet that’s worthy of making for youngsters who understand the risk/reward trade-off. Their fate, however, is directly tied to the

coronavirus, making them nearly impossible to value here and now.

As long as investors understand that they're essentially betting on the eradication of the coronavirus and that exogenous factors will almost entirely dictate the trajectory of the stock, only then should investors venture into airline stocks amid these unprecedented times.

Just because Warren Buffett has lost faith in the commercial U.S. airlines doesn't mean you should too. Buffett and Berkshire Hathaway [still depend on the recovery of the air travel industry](#), with its 100% ownership of aircraft and engine component manufacturer **Precision Castparts**.

If you lack any exposure to the airlines, whether through flight simulators, part makers, or the airlines themselves, now wouldn't be the most absurd time to place a bet on the industry that's on the brink.

Yes, you're venturing into the unknown, but if you're young and able enough to stomach the risks, the rewards could be unfathomable.

Foolish takeaway

Boeing CEO David Calhoun recently warned that "it will be years" before the air travel industry can return to pre-pandemic levels. If you're a young investor with a time horizon of at least 10 years, it makes sense to scale into a position in a seemingly toxic airline stock like Air Canada after the recent carnage.

But be warned: being at ground zero of this pandemic is not for the faint of heart, so don't bet what you're willing to lose and scale into a position gradually over the next several months, rather than plowing a lump sum on a "risk-on" name such as Air Canada.

Stay hungry. Stay Foolish.

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