



Millennials: Air Canada (TSX:AC) Stock Could Make You Rich (or Broke!)

Description

Charlie Munger said, “Stock picking is like gambling: those who win well seldom bet, but when they do, they bet heavy.” Munger is the vice-chair of **Berkshire Hathaway** and Warren Buffett’s partner in business.

He isn’t the first person to compare gambling and stock investing, and he will certainly not be the last. And while true investing and gambling don’t really overlap, sometimes investing *can* feel like gambling.

That’s especially true if you [consider a stock](#) like **Air Canada** ([TSX:AC](#)).

The airline business has been hit so harshly by the pandemic that a lot of people have gone from wondering *will* Air Canada go bankrupt to *when will* Air Canada go bankrupt. The stock hasn’t been this low since August 2017. It’s a win-big, lose-big bet, for those daring enough to take it.

If it goes bankrupt

When a company goes into bankruptcy, its assets are sold to pay off its debts. Capital from liquidating the assets is distributed among government (tax obligations), financial institutions (loan repayment), suppliers, utility bills, any other creditors, bondholders, preferred shareholders, and common shareholders. Unfortunately for common shareholders, they are the last to get paid.

In most cases, shareholders don’t get paid anything at all. This might be the case with Air Canada’s bankruptcy because of its high level of debt. If the company is restructured, then there might be a slight glimmer of hope for investors that the stock won’t be defunct. But in case of a complete liquidation of assets and bankruptcy, the stock might become completely worthless.

If it doesn’t

Then there is the win-big part. Currently, Air Canada is trading at about \$21.8 per share. That’s less than half of what it was trading at before the crash. If Air Canada’s stock rallies, reclaims its lost

valuation, and starts climbing at its pre-crash pace, then investors might have a chance of doubling their initial investments in less than two years.

Air Canada was one of the hottest growth stocks before the crash. Between May 2015 and January 2020, its returns were about 332%. A \$10,000 investment five years ago would have grown well over \$30,000 in just five years. It can happen again. It's the same company, the same management, and the current failure is not the company's fault.

If the world returns to normal, whenever that is, the chances are that Air Canada might show the same progress it did before the crash. This time, hopefully, with less debt weighing it down.

Foolish takeaway

Generally, I don't like comparing investing and gambling. But for this particular stock, the comparison might be apt. If you are willing to take the chance that the government will [bail Air Canada out](#), and that things will become normal again before the company hits rock bottom, then Air Canada could make you rich. Because if you do win this gamble, you will win big. But in the unfortunate event that you lose, you will likely lose it all.

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