Does Air Canada’s (TSX:AC) Stock Price Make it a Buy Today?

Description

Investing is an emotional business. Mistakes are easily made, and quick fixes for battered portfolios are hard to come by. Buying and selling shares based on current events is a common driver of hasty decisions. But there’s one easy way to reduce the risk of an impulse buy or panicked sale: look beyond the headlines. Today, we’ll put the spotlight on the troubled aviation sector and one of its most significant players.

It’s looking possible that the Canadian aerospace sector may require government intervention to even begin recovering. But this shouldn’t be news to any investors who have been keeping an eye on the aviation space over the years. This is a sector haunted by the threat of bankruptcy and strongly tied to the economy. Investors should bear in mind that air travel is essential in a normal world and carry on holding.

This stock could be packed with long-term upside

It’s easy to be bearish on flight stocks right now. **Air Canada** (TSX:AC) stock may feel like a liability in a portfolio. The stock dropped a further 12% in the last week, and has lost more than 60% of its value since this time last year. Yet analysts are pegging this stock as a moderate buy. Its current price of $14 a share is now below its low target of $19. And with a high target of $60, there’s the chance for massive upside here.

The aerospace sector is likely to recover in the long run as both the economy and the global populace takes to the skies once more. Some smaller carriers — and even some large ones — could end up stuck on the runway. But Air Canada’s market share is arguably large enough to afford some defensive clout. Getting invested in beaten-up sectors is also a classic contrarian play with elements of value investing.

Air Canada stock is therefore likely to continue to decline in the near term. Investors of a contrarian bent who are eyeing a full recovery over time should consider buying this name while it's cheap. But there's a quick way to do this and a smart way. They are not necessarily the same thing. The quickway is to buy a position in Air Canada all in one go, believing that the bottom has been reached.

However, there's a lower-risk version of this value strategy. Split that position up into segments and buy each segment as Air Canada stock continues to drop. This will allow investors to stack shares over a longer time period at not only decreasing cost but also decreasing capital risk.

The bottom line

When it comes to investing in frothy markets, it's not about the mistake; it's about the recovery. One way to fix up a pandemic portfolio fast is to buy into high-returning names at bargain prices. As the nation's most significant aviator, the "too-big-to-fail" thesis might just hold water for Air Canada. Value is a compelling strategy right now, and it's a mode of investment that could come back into fashion this year.

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