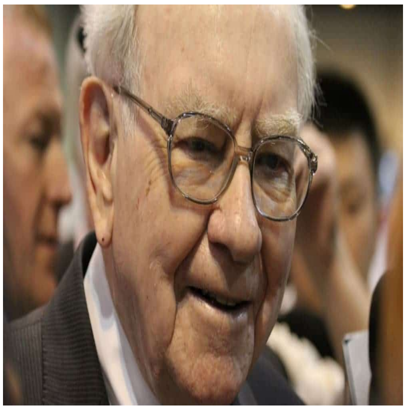

Warren Buffett Makes it Clear: Stay Away From Airline Stocks

Description

Warren Buffett said, “The most important thing to do if you find yourself in a hole is to stop digging.” Is this what he did with the airline stocks? At **Berkshire Hathaway**’s annual meeting, Buffett admitted that he was wrong to invest in the airline industry. He had been against investing in the aviation industry for years. That changed in 2016 when he bought significant stakes in four major U.S. airlines.

In 2016, things were different. Airlines seemed like mature and stable businesses, able to generate free cash flow from consistent operational activities. But the pandemic changed everything. People are afraid of flying, and the fear of getting sick because of a single individual taking a flight with you is unlikely to dissipate any time soon.

Are airlines a doomed industry?

Buffett let go of his stake in the airline industry at a steep loss. This makes us believe that he is cutting his losses, and he doesn’t believe that the industry is recovering anytime soon. Buffett is known for staying with good businesses, and if he believed that the airlines he had significant stakes in would make a full recovery and start making him money again, he might have waited.

But his sell-off sends a clear message: Buffett doesn’t trust airlines as viable and profitable investments, at least not now. Maybe in a few years, when airlines start growing again, Berkshire Hathaway might make them a part of its portfolio again. This is something many investors, who are willing to risk their capital in pursuit of an abnormally low valuation, can learn from.

What can investors learn from it

Investors can learn that when you don’t believe in a business’s recovery, it’s okay to admit that you were wrong and cut your losses as much as you can by moving swiftly. It also means keeping an eye on your investments and the underlying companies and make sure that they still hold to the values that made you invest in them in the first place.

If you want to emulate Buffett's aversion to the airline stocks, you may want to stay clear from **Chorus Aviation** (TSX:CHR.B) as well. As a stock, it didn't even come close to **Air Canada** in the last five years. Despite being a dividend stock, it could never attract investors like Air Canada did with its amazing growth. What makes it different is that it operates regional flights compared to Air Canada's massive international operation.

But that's not it. The company also provides regional air support to different countries in the world. It leases aircraft to third-party airlines, sells relevant parts and components, and provides maintenance repair and overhaul services. While its portfolio is more diversified, and its dependency on international air travel is significantly lower than Air Canada's, the company is still suffering the rut.

Currently, the stock is trading at over 60% down from its year-to-date value. This $492-million-market-cap company has over $1.84 billion in debt. At its current stock price of just $3 per share, many investors might find it a profitable investment. But its recovery and resulting growth might even be slower than Air Canada's.

Foolish takeaway

Warren Buffett is considered an oracle and a wizard, but even he is not infallible. That's apparent from his current airline industry mistake and various other investments he made that didn't pan out. This is something that all investors should understand: no matter how good you are at reading the market and the patterns, you can't negate the inherent risk of investing in stocks.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:CHR (Chorus Aviation Inc.)

PARTNER-FEEDS

1. Business Insider
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