



## Warren Buffett: “I Made a Mistake” About Airlines

### Description

“The world has changed for airlines.” Those were the exact words of Warren Buffett after his admission that investing in the airline industry was a mistake. The billionaire investor had \$4 billion invested in four American airline stocks.

Buffett’s conglomerate **Berkshire Hathaway** [dumped all its stock holdings](#) in **American Airlines**, **Delta Air Lines**, **Southwest Airlines**, and **United Airlines**. The revelation shook the industry such that few investors will dare take positions in the sector from here on out.

### Mighty wings are gone

**Air Canada** ([TSX:AC](#)) was flying high in 2019 until COVID-19 clipped its wings in 2020. All top global airlines crashed in unison. Air pollution has been diminished significantly, as only cargo planes are taking flight.

Canada’s most dominant airline posted \$1 billion in losses in the first quarter of this year and continues to bleed. The federal government is in a dilemma and [exploring options](#) for saving the drowning air travel sector.

### Available support

The Canada Emergency Wage Subsidy (CEWS) is offering a 75% wage subsidy so that employers like Air Canada can keep workers in the payroll or rehire laid-off employees. So far, the country’s flag carrier is not participating in the program. It has until June 6, 2020, to avail, although it could extend up to August 2020.

Effective May 11, 2020, the Large Employer Emergency Financing Facility (LEEFF) program is available. Large for-profit businesses in all sectors, excluding the financial sector, can apply for the new program. LEEFF will provide at least \$60 million bridge-financing to large corporations.

Air Canada has yet to confirm if it will avail of LEEFF. The financing access can help contain the bleeding but only in the short term. Fixed costs, such as maintenance costs, among others, are fast rising. With little or no revenues coming in, airline companies are burning vast sums of money.

The federal government might need to come up with a specialized program. Otherwise, Air Canada will be dead in the water soon.

## Grim business outlook

One of the cost-reduction measures of Canada was the mass layoff. In April, the company laid off some 16,500 employees, including customer service agents, flight attendants, and mechanics.

On May 15, 2020, management announced it is letting go of 50-60% of the workforce. According to some sources, Air Canada will offer flight attendants the option to slash schedules, go on a two-year leave, or resign with travel privileges. The move aims to minimize the number of layoffs.

Air Canada can no longer afford to keep a workforce that is supposed to handle 1,500 daily flights. The company was previously transporting 51 million passengers a year and flying 258 aircraft. The sad reality is that Air Canada is presently operating at only 5% of full capacity.

## Follow Buffett's lead

Warren Buffett said his mistake was understandable, as he did not foresee the industry downturn. Everyone has known since 2003 that the value investor did not have an interest in the air travel business. His intuition was correct, but he paid a heavy price.

The fate of Air Canada is doomed. Investors should avoid airline stocks because the runway for growth is closed.

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