



Air Canada (TSX:AC): Should You Ignore Warren Buffett and Buy Now?

Description

Back in January, when the stock market was not in the grips of the coronavirus (there were around 800 global infections at the time), I urged investors to sell **Air Canada** ([TSX:AC](#)) stock immediately, [warning that a violent plunge was on a horizon for the airline stocks](#).

“While there’s no global epidemic yet, one can only expect that many casual travellers are poised to postpone travel plans to minimize their risk of contracting a virus that we still know very little about,” I said.

“While shares of Air Canada have already fallen over 7% on coronavirus-related news, it’s worth remembering that the dip is nothing more than a tiny blip when you take a look at the one-year chart. As such, the stock remains overpriced given the new risks that could fuel a 20-30% peak-to-trough decline.”

I made the right call, but boy was I wrong about the severity of the decline.

Air Canada stock ended up losing over 75% of its value from peak to trough on the coronavirus. With long-term demand for air travel still highly uncertain (some believe it could take as much as three years for the airlines to recover from this crisis), I wouldn’t rule out another collapse in shares should this pandemic take another turn for the worst.

Should you ignore Warren Buffett’s bearish outlook for the airlines by buying Air Canada stock?

Back in January, when I was urging everyone to sell airline stocks in the early stages of the coronavirus outbreak, Warren Buffett was pretty bullish on the airlines. Fast-forward to April and he changed his tune, throwing in the towel on the entire industry, turning paper losses in U.S. commercial airlines into real losses.

While Warren Buffett is undoubtedly the greatest investor of our generation, it is foolish (that’s a lower-

case “f”) to follow the man into or out of stocks without a long-term thesis that you have formed. If you followed Buffett into and out of the airline stocks, you took a profound hit to the chin.

It’s now evident that Warren Buffett made a mistake by getting scaling into airline stocks in the months before their collapse. But was it also a mistake for the Oracle of Omaha to liquidate his stake in the now cheaper airlines? I certainly wouldn’t rule out that possibility as well.

What if Warren Buffett was wrong to sell his airline stocks?

Only time will tell whether it was a mistake for Warren Buffett to sell at these depths amid the pandemic. But given the massive upside potential should an effective vaccine land sooner than expected, I wouldn’t be so quick to ditch the airlines, especially if you’re looking to scale into a position at these unprecedented depths.

The airlines have turned into an all-or-nothing speculation. If you’re a youngster with disposable income, risking your entire principal for a potential five-bagger may make sense. It doesn’t make sense for Warren Buffett because he doesn’t speculate, but if you’re one to speculate on marijuana or white-hot tech stocks, it does make sense to nibble into a small position in Air Canada today.

Unlike the U.S. airlines, Air Canada has a superior liquidity position and is less likely to go under as the coronavirus pressures continue to weigh. Moreover, as one of two big-league Canadian airlines, the federal government is unlikely to let Air Canada go under, although a bailout could imply severe dilution to existing shareholders.

Foolish takeaway on Air Canada stock

Ultimately, Air Canada stock is going to move on broader macro events related to the coronavirus. If that’s fine with you and you understand the risks involved with your risk-on bet (one that Warren Buffett clearly isn’t comfortable with), only then do you have my blessing to bet on Air Canada stock at this juncture.

Air Canada stock already got cut in half, twice. And with revenues nosediving toward zero over the medium-term, you can bet that the stock could easily halve many more times en route to the single digits before it [bounces](#) back.

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