



If You Must Buy Air Canada (TSX:AC) Follow This Important Strategy

Description

Thousands of investors are crowding into **Air Canada** ([TSX:AC](#)) stock, despite the company offering major risks.

The logic is simple, which concerns me a little bit. These folks are convinced the government won't let [Canada's national airline](#) go to zero. They say Justin Trudeau and his ruling Liberal Party will do whatever it takes to protect jobs and ensure Canada has a viable national airline.

I don't disagree with that assessment. Air Canada's survival is important to the country. But that doesn't mean investors will be made whole in such a scenario. A structured bankruptcy where debt holders become shareholders would rid the enterprise of its debt, allowing it to emerge as a leaner operation. Staff would keep their jobs and the company could pass on savings to customers in an attempt to jump start the entire travel industry again.

Sounds like a win for everyone — except common shareholders.

That's why shares stubbornly won't rise above the \$15-\$20 range. The smart investors are acknowledging the bankruptcy risk is very real, which is keeping shares depressed.

Still, I'm the first to admit that Air Canada represents a compelling risk/reward opportunity. Air Canada shares trade at \$16.41 each as I type this. It was a \$50 stock before COVID-19 crushed the sector.

If the stock can simply go back to those highs, it represents a 200% return on investment. It's enough to turn a \$10,000 stake into something worth \$30,000 — and the stock would also have potential to go higher over the long-term, too.

I suggest investors take a somewhat different approach to the sector. Rather than just buying Air Canada shares, investors should do this instead.

Take off some risk

The same story is playing out around the world. Major airlines are struggling and governments are stepping in to help. Most governments are giving these airlines sweetheart loans, which should be enough to ensure these companies can get through today's lean times.

The main issue is what happens tomorrow. Whether it's Air Canada or another major carrier, the story is the same. We need travel to bounce back relatively quickly for airlines to survive in their current form. If it doesn't, we'll be back in the same situation in a year or two. Will bailouts happen again?

One way investors can effectively minimize much of the risk of an Air Canada investment is to spread their bet among several airlines. Yes, the same issues are affecting these carriers too, but there's a better chance of the investment working out if you spread your risk.

Such a move also takes away the risk of one economy bouncing back much quicker than another, which would hurt one airline in the effected country much more than its peers. And it minimizes other risks impacting one individual carrier.

For instance, perhaps one of Canada's ultra-low-cost airlines captures nice market share coming out of this crisis. That would be bad news for Air Canada but it wouldn't affect any American or European airlines.

There are many different airline stocks around the world, each with a compelling investment thesis. **Ryanair** and its ultra-cheap fares has had tremendous success over in Europe. **Southwest** has used a similar strategy in the United States. **Singapore Airlines**, meanwhile, has successfully created a high-class airline.

These are just a few examples. There are dozens more. And, if investors really want to diversify their bets on the travel industry they can check out [other stocks in the sector](#).

The bottom line

Nobody really know what will happen with Air Canada over the next few years. It looks likely shares will slowly recover as we get back to normal, but that's just a guess.

There's nothing wrong with buying Air Canada shares today. But I think the much smarter move is to spread that investment among several different airlines or travel stocks. Just in case something bad happens to Air Canada.

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