



## Air Canada (TSX:AC) Stock: Was Warren Buffett Wrong to Sell All Airline Stocks?

### Description

Legendary investor Warren Buffett, CEO of **Berkshire Hathaway**, made headlines a few weeks ago when he disclosed that he had sold all of his stake in airline stocks.

Berkshire Hathaway had previously held positions in four major U.S. airlines. These companies include **Delta Airlines**, **American Airlines**, **Southwest Airlines**, and **United Airlines**.

### Buffett's late entry into airline stocks

For years Buffett had avoided airline stocks altogether. In 2002, [Buffett remarked about the airline industry](#), "You've got huge fixed costs, you've got strong labor unions and you've got commodity pricing. That is not a great recipe for success."

So it came as a surprise that Buffett would jump into airline stocks in the first place. Similarly, it came as a surprise that he would so quickly reverse course and sell his entire position. Berkshire Hathaway owned over 10% in both Delta Air Lines and Southwest Airlines before selling.

According to Buffett, ["The world changed for airlines"](#) due to the travel shutdowns caused by the global COVID-19 pandemic.

### Buffett isn't right all the time

Warren Buffett made his fortune as the Oracle of Omaha by buying stocks he considers a great value. He invests in companies with sound fundamentals, but investor sentiment has beaten down the price of the stocks.

Even with a fantastic track record, which has made many investors in Berkshire Hathaway very wealthy, Buffett has made mistakes.

Buffett readily admits he was wrong about tech companies like **Amazon** and **Microsoft**. Although

Buffett eventually jumped on board and loaded up on Amazon stock, he was relatively late to the game. It wasn't until 2019 that Berkshire purchased Amazon stock. In a *CNBC* interview, Buffett remarked, "I'm a fan, and I've been an idiot for not buying."

## Investors follow Buffett's lead

Although Buffett has made some mistakes, he has been right enough most of the time that many investors follow Buffett's lead.

That is exactly what happened with his recent announcement that he had abandoned airline stocks. Shortly [after Buffett's announcement](#), shares in American, Delta, United, and Southwest fell 7.7%, 6.4%, 5%, and 5.7%, respectively.

## Has this plunge created an opportunity for Air Canada?

For the past two years and prior to the outbreak of COVID-19, stock in **Air Canada** ([TSX:AC](#)) had been on a solid trajectory upward. As of this writing, shares are trading at \$16.27. While that is a steep decline from the previous high of \$52.71, shares are well above their 52-week low of \$9.26.

Due to the pandemic, Air Canada's debt at the end of the first quarter grew to \$9 billion. While that number is concerning, the company finished the period with [\\$6.1 billion in cash](#) and short-term investments. In April 2020, the carrier added to its liquidity by arranging for an additional \$1.6 billion in financing.

There is no doubt that the problems at Air Canada will get worse before they get better. No one knows when air traffic will rebound to pre-COVID-19 levels. However, the last time Air Canada faced similar situations due to the SARS outbreak and the Great Recession, the company managed a strong comeback and the stock flew higher.

While the outlook for the airline industry is uncertain right now, Air Canada has the financial resources to stay the course. Through cost cutting, government intervention, and the hope that a vaccine or a cure to the coronavirus will be discovered, Air Canada will make an eventual comeback and patient investors will be rewarded.

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