



Did Warren Buffett Make a Massive Mistake Selling His Airline Stocks?

Description

It was a major surprise for many people when Warren Buffett announced that **Berkshire Hathaway** sold all its holdings in airline stocks. A few months ago, the pandemic started to wreak havoc on global economies and led to a shutdown.

Warren Buffett previously did not want to sell his airline stocks. However, in the space of a few months, the situation has entirely changed. With millions of people infected by the novel coronavirus, crippling economies, air travel has also come to a grinding halt.

Why did Buffett sell the airlines?

Warren Buffett is the king when it comes to picking out stocks that pose potentially immense [long-term profits](#) for his investment portfolio. However, he said that the world has changed for the airline industry due to the pandemic. Buffett said that he was not sure what the future holds for the industry, and he does not know whether people will change their habits due to the lengthy lockdown.

Uncertainty is the one thing that is for certain amid the global health crisis. It is also the uncertainty that is a crucial reason for Buffett to consider this stance on airline stocks and why he decided to cut his losses. Nobody knows when airlines can resume normal operations — not the airlines or the people who might want to travel.

Air Canada (TSX:AC) recently released its quarterly earnings for the first quarter of fiscal 2020. Everybody was expecting bad news, and it came as a significant loss of over \$1 billion for the Canadian airline. AC said that it expects that it can take at least three years for air traffic levels to get to pre-pandemic levels. That can only happen *after* the coronavirus subsides.

It is impossible to give a realistic prediction since we are in entirely uncharted territory because of COVID-19. The CEO of AC, Calin Rovinescu, said that we are living through the “darkest period ever in the history of commercial aviation...”

Did Buffett make a mistake selling airlines?

At writing, Air Canada has lost just over 69% of its share price from its 2020 peak. Trading for only \$16 per share, the national carrier is close to its 52-week low. The airline's debt has shot up to a devastating \$9 billion after its quarterly report. Despite all the bad news, Air Canada has substantial liquidity through \$6.1 billion in cash and short-term investments.

Air Canada also managed to further bolster its liquidity through arranging \$1.6 billion in financing during April 2020. The second-quarter results for the airline will be even worse, since it will account for the full impact of the lockdown. There is a chance that the stock will slump even further until operations can resume.

Despite all the struggles, Air Canada's liquidity gives it a better chance to weather the lockdown than its American counterparts that Buffett invested in and sold off. Air Canada enjoys a more substantial market share in Canada's airline sector than the multiple airlines that Berkshire held.

There is a chance that airlines like AC might enjoy substantial upside growth if lockdown measures ease up and normal operations resume. The risk is undoubtedly immense, but the potential reward can be monumental if the situation becomes favourable for air travel soon.

Foolish takeaway

Warren Buffett might not have made a mistake by selling airline stocks. After the pandemic ends and economies resume, many companies might go belly up. Airlines are in plenty of trouble, and many may go bankrupt. Air Canada might not have it as bad as its American counterparts. I would suggest investing in the stock, but with great caution.

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