



Should You Buy Air Canada (TSX:AC) Amid the Airline Rally?

Description

Air Canada ([TSX:AC](#)) is a speculative bet that may be worth the risk depending on [your age and risk tolerance](#). The company is sitting at ground zero of the coronavirus crisis but appears to have formed a bottom alongside its peers in the air travel industry.

Although Air Canada is on relatively stable financial footing (with far better-than-average liquidity positioning at the time of writing), an unforeseen second wave of coronavirus disease 2019 (COVID-19) cases could easily turn Air Canada back into a dangerous falling knife that could blast a hole in one's retirement fund.

Warren Buffett bails on the airlines

Warren Buffett may look like he was wrong to throw in the towel on airline stocks after the latest airline rally. But as I'm sure you'd agree, it's far too soon to say whether he's right or wrong given that the COVID-19 crisis is far from over.

Buffett, the greatest investor of our time, had his fair share of concerns, most notably the "all-or-nothing" risk/reward trade-off that looks to depend solely on an exogenous binary event. Either there will be a timely arrival of a vaccine that can cause air travel to bounce back sharply or this horrific COVID-19 pandemic could linger on, possibly for a year or even longer.

Amid the latest airline rally, the uncertainties remain too great to tell whether airline stocks like Air Canada are [genuinely undervalued](#). The lines between investment and speculation have become blurred amid the COVID-19 crisis, and Buffett likely recognized this.

The Oracle of Omaha does not seem to be willing to speculate, even though he knew that the headlines would be unkind to him after any short-term relief rally the industry was overdue to enjoy.

But just because Buffett isn't willing to speculate doesn't mean that airline stocks don't deserve a spot in your portfolio, especially if you're young, with a willingness to take on more risk for a shot at huge rewards.

If the coronavirus can be contained or eradicated promptly, Air Canada stock may prove to be severely undervalued

Air Canada stock rallied alongside the broader basket of airline stocks over the past week thanks to optimism surrounding the reopening of the economy. Shares of AC pulled back 10% on Tuesday, though, as shares continue posting off-the-charts volatility in both directions.

While it's anyone's guess as to how much this airline rally has to go, investors should think longer term with a name like Air Canada. If worse comes to worst and we're due for many further uncontrollable waves of COVID-19 infections, then sure, Air Canada may be in for a turbulent ride en route to \$0.

But if an effective vaccine or containment effects aided by technologies such as contact tracing, Air Canada stock may prove to be ridiculously undervalued right here.

Of course, it's hard to tell, but if you're optimistic about a vaccine, Air Canada may just be one of your biggest bargains that you'll scoop up amid these ridiculously volatile times.

At the time of writing, AC stock trades at 1.6 times book, which is far too cheap if the economy recovers the way the stock market has in recent months.

So, should you bet on Air Canada amid the airline rally?

If you're a young investor with money to speculate with and you're looking for a way to bet on the eradication of the coronavirus, you should get some skin in the game with Air Canada at these depths.

Just be ready for a turbulent ride and have more cash to average down.

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Date

2025/08/25

Date Created

2020/06/11

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