



How to Know When Air Canada (TSX:AC) Stock Has Bottomed

Description

Air Canada ([TSX:AC](#)) stock has continued to draw in a tonne of speculators in recent months. With casinos shut down, many gamblers have looked to the stock market to place bets across names with a high chance of exploding upwards.

While airlines and cruise lines have been cruising for a bruising amid the coronavirus crisis, they've also fallen to unprecedented depths that could leave them subject to a very sharp upside correction in a broader industry comeback.

Warning: Volatility in airline stocks has drawn speculators

There's no question that the unprecedented magnitude of volatility in airline stocks such as Air Canada has drawn a crowd that seeks to play the game of greater fools (based on the Greater Fool Theory, and no, it has nothing to do with The Motley Fool!)

Air Canada is a double-digit percentage mover on any given day, and while you could make a killing in the name over the short-term, you could also stand to lose your shirt as optimism runs dry and the air travel rally comes to an end.

The airlines are due for a turbulent ride, likely through year-end, as uncertainties are added and removed from the story in time. So, if you're no stranger to volatility and are willing to bet alongside speculators, Air Canada may be a worthy spec bet, but only if you're not going to draw too much attention to every plus-10 or down-10 percentage daily moves.

The volatility is likely to stay as long as we're in a pandemic. The coronavirus could spark further outbreaks over the next few years, and as long as it's still out there, even if it's containable, the airlines are going to be flying against a massive headwind — a headwind that could cause them to nosedive below those March lows.

Some of the less-liquid U.S. airline stocks may plummet to \$0. **Boeing** CEO David Calhoun seems to think at least one U.S. airline bankruptcy could be in the cards for the year.

When will we see a bottom in the stock?

As good a job Air Canada's management has been doing to weather the coronavirus typhoon, it ultimately remains at the mercy of the pandemic. While the stock may experience a pop as an economic reopening fuels optimism and a relief rally in some of the COVID-19-hit plays, I don't think it's safe for investors to call any sort of bottom — not as long as the coronavirus is still out there.

Most pundits would agree that the air travel industry is in for a long multi-year road to recovery. The recovery may be much quicker if an effective [coronavirus vaccine](#) lands promptly, or much longer if we don't have progress with such a vaccine over the next year and beyond.

Once a vaccine lands, Air Canada and its peers are likely to pop as they're proven to be [undervalued](#). But until that happens, anything is possible, and it's tough to call a bottom in the airlines, as any one of them can go bankrupt in a worst-case scenario.

Place your bets accordingly. Air Canada, or any other airline stock, may be a terrific addition to a COVID-19 "barbell portfolio," but on its own, it's likely too risky for anyone but a speculator.

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