



Beginner Investors: Stop Speculating and Do This Instead!

Description

There's been quite a surge in speculative activity by retail investors amid the recent relief rally. Many beginner investors are likely getting into the markets for the first time, and many of them are betting on the severely beaten-up airline stocks viewed as having the most upside once the coronavirus pandemic ends.

A sharply rising appetite for speculation

While airline stocks may seem like an apparent deep value bet for [beginners](#) to pile into, Leon Cooperman recently stated on CNBC that he believes Robin Hood traders betting on airline stocks will "end in tears." I'm sure Warren Buffett would agree, having dumped his entire stake in U.S. airline stocks amid the coronavirus crash earlier this year.

While the bearish view of airlines may prove to be wrong if a coronavirus vaccine were to land sooner rather than later, beginner investors should seek to be cautious with their bets rather than chasing upside in an arena crowded with speculators seeking to play the game of greater fools (that's a lower-case "f"). And no, the game has nothing to do with the Motley Fool!)

The difference between investment and speculation!

In many [prior pieces](#), I warned beginner investors that **Air Canada** ([TSX:AC](#)), Canada's preferred way to bet on the rebounding of air travel, was a reckless bet on its own, but made sense if purchased alongside securities at the risk-off end of a properly balanced COVID-19 "barbell" portfolio.

Air Canada is arguably a far better bet than the U.S. airlines because of its sufficient liquidity position and somewhat contained cash burn rate. But ultimately, any airline, even the top-notch ones, will not stand to make enough money to keep the lights on if we're destined for further government-mandated shutdowns for an indefinite period.

The uncertainties are too significant to consider a play like Air Canada as a sound investment. That's

why I think Warren Buffett bailed on the airlines at a considerable loss and why beginners should only speculate on airlines with what they're willing to lose.

You'd think that big-league institutional money managers would be more inclined to have less fear when it comes to the battered, riskier areas of the market.

But that hasn't been the case, as beginner investors have been flocking into the battered plays such as the airlines, likely because they're hungry for upside and are unaware of the risks involved with holding a stock that's at "ground zero" of the coronavirus crisis.

Foolish takeaway

Many airline and cruise line stocks could be headed to \$0 as their liquidity reserves dry up. Those seeking to make a killing in a complete return to normalcy could stand to lose their shirt *and* their pants in a worst-case outcome with the pandemic.

In the meantime, the smart money is betting on modestly discounted firms that are more than likely to survive the coronavirus crisis, regardless of how long it lasts and what the pandemic endgame will be.

If you're a new investor, make sure you spread your risks and don't bet the farm on all-or-nothing "cigar butt" plays that may not be as cheap as they seem.

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