



Air Canada (TSX:AC): Will the Airline Stock Make You Rich or Broke?

Description

Air Canada ([TSX:AC](#)), as well as many other U.S. airlines, have been a [hot commodity](#) among speculative retail investors. They have a strong desire to punch their ticket to outsized near-term gains, as the world recovers from the coronavirus crisis.

Indeed, the range of possibilities is ridiculously wide for the airline industry.

While a favourable liquidity position and muted cash burn rate of a more financially flexibility airline like Air Canada improves the chances of surviving what Charlie Munger has referred to as a “coronavirus typhoon,” a bear-case scenario with this pandemic, I believe, leaves airline investors at risk of losing their shirts.

Are the odds of a name like Air Canada going under high?

Given some pundits are pointing to a vaccine at some point in 2021, with a potential return to (semi-)normalcy in the cards in the latter half of 2021, I'd say the odds of Air Canada stock falling to \$0 is pretty low, especially after the airline's latest moves to shore up even more [liquidity](#).

Of course, there's always a chance that the pandemic could drag on into 2022 and beyond. Although the disruption to business will be more muted should it drag on that long, the airlines could still be in an environment where it's uneconomical to get planes back in the skies. And the longer this pandemic extends, the closer a name like Air Canada will be to the brink.

In a way, Air Canada is an all-or-nothing bet, even for long-term investors willing to hold through this pandemic. In the meantime, even the slightest bit of good news could move the needle. The stock could pop by double-digit percentage points into the green, as investors desperate for something to be optimistic about look to pile in before any sustained momentum has a chance to be generated.

Getting bullish on the airlines can be tough when Warren

Buffett isn't

In the end, Air Canada is a bet on the timely arrival of a vaccine or an effective containment of the coronavirus. Warren Buffett is unwilling to place a bet on the outcome of such a binary exogenous event. Still, many other brilliant big-league investors are, including the likes of legendary fund manager Bill Miller, who's bullish on airline stocks at these depths.

Back in mid-March, after the stock market was in shambles, Miller stated that the market represented one of the "greatest buying opportunities" in his adult life. As it turned out, the man was right on the money. And I think there's a good chance that he's right about the airlines, even though Warren Buffett enjoying the show safely from the sidelines.

If you're a younger investor with some disposable income to put to work, I can't say that I'm against betting on Air Canada in the mid-teens. The advent of an effective vaccine could propel Air Canada stock multitudes higher. And while the volatility will be too much to handle for most weak-handed investors, I think the roller coaster is worth riding if you're got the temperament not to panic at the next significant drop.

Foolish takeaway on Air Canada

Today, Air Canada stock is under pressure again, with shares pulling back below \$17 on news of the suspension of 30 regional routes. Air Canada could be headed to the single digits until the next modest good news event sends shares spiking higher. So, understand the inherent risks in the name and place your bets accordingly.

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