



Take Warren Buffett's Advice and Soar Above Coronavirus/Market Fears

Description

Warren Buffett has made comments recently. He once again shunned the airline sector as one he will never touch again. Many investors may be wondering if he really means it this time. Airlines have proven themselves to be excellent cash flow-generating investments during bull markets, after all.

Companies like **Air Canada** ([TSX:AC](#)) soared from less than \$1 per share to more than \$50 per share in approximately one decade. The company's stock price now down below the \$20 level at the time of writing. This is a drop of more than 60% in just months. Therefore, this stock can understandably be viewed as cheap through the eyes of a value investor.

Here's why I'd avoid this stock, like Warren Buffett seemingly intends to do indefinitely.

Investing style

I've previously made bullish comments on Air Canada. However, these ought to be taken in context. [My view of Air Canada](#) stock has always been that this is a trading vehicle for those looking to exploit market pricing inefficiencies across similar companies in the same sector.

Therefore, my most common suggestion was that investors take a long position at Air Canada only as part of a long short trade, with WestJet (now part of **ONEX**) or one of the U.S. airlines as a short position. This was due to what I perceived as a value gap across this sector, one I believe still exists today.

That said, when Air Canada stocks soared above \$50 a share, I issued a warning that the stock has flown too high, too fast. Thus, I recommended investors ought to consider offloading or trimming positions. Again, this was discussed as a trade, rather than a long-term buy-and-hold investing strategy.

My typical portfolio of investments and those I watched closely include only buy-and-hold plays. As such, I've never owned Air Canada stock. Nor would I recommend investors initiate a position other than to trade.

Investing style is important. An investor should stick to owning stocks they believe in with high levels of conviction for those long term. This minimizes trading fees and maximizes profit long term. After all, if you never sell, you never pay taxes.

It really could be different this time

Whether investors consider 9/11 or the financial crisis, airlines always seem to bounce back in dramatic fashion (as previously discussed). That said, all it takes is one catastrophic economic disaster to permanently cripple Air Canada or its peers due to the nature of the industry.

Sky-high fixed costs and debt loads that would be considered unfathomable in other sectors are par for the course in this sector. This is one of the key reasons Warren Buffett committed to never owning airlines before, as these operating dynamics cause outsized downside risk specific to airlines.

Let's hope Air Canada and its peers will all recover in a similar fashion from this recession as previous ones. For those more conservative in their views, steering clear of airlines entirely seems like a prudent idea now more than ever.

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