



Follow Warren Buffett's Advice and Avoid These Stocks

Description

At the **Berkshire Hathaway** shareholders meeting in May, Warren Buffett commented on his airline holdings. The Oracle of Omaha chose to sell his airline stocks in the first quarter when the coronavirus pandemic first hit.

Warren Buffett said that the decision was made to sell the airline stocks, because Berkshire's management's view of the industry had shifted. Furthermore, Buffett didn't expect capacity to return to 2019 levels for at least a few years.

To me, at the time, that was a prudent move, and [I agreed with him](#), warning investors to avoid the stock.

Fast forward a few months, and the speculative stock market began to take off. Stocks were rallying with some of the hardest-hit companies and bankrupt businesses leading the way.

Furthermore, some people had even questioned whether Warren Buffett had been wrong to sell the airline stocks now that they're rallying.

I'd addressed this dangerous and speculative thinking [a month ago](#); he is not a short-term trader, and even if he was wrong once, that's no reason for him to lose his reputation as one of the best.

I also pointed out that these short-term results meant nothing. A lot of the rally was due to the stock market going crazy around the rapid reopening that the U.S. was seeing. Looking back now, it's clear that it was too optimistic and premature.

Since then, airline stocks have continued to fall, as they continue to deal with highly reduced capacity.

Was Warren Buffett right?

It's now clear that airline stocks aren't seeing the recovery people thought they would. The stocks have cooled off after losing momentum, expectations over the next few quarters are extremely low, and, just

recently, more and more people have reported being afraid to fly.

Popular airlines in the states have even been canceling routes for August as passenger levels and volume recovery have flattened out. This is essentially what Warren Buffett predicted when he said that he didn't think capacity would return to 2019 levels for years.

For **Air Canada** ([TSX:AC](#)), it remains a major issue. And it's still way too early to make an investment.

Air Canada

The stock is down significantly from its 52-week high and will remain there for some time. While I think the stock could make for a great recovery someday, at the moment, it's still much too early.

There is still considerable uncertainty with duration, and that creates uncertainty around financials. Airlines are unlike other industries, where meaningful cost savings can be achieved when volumes are lower.

The costs of having planes (which still require maintenance) sit on the ground are exceptionally high, leading a tonne of these stocks to burn vast amounts of cash daily.

Furthermore, there is still massive uncertainty about global restrictions, domestic restrictions, as well as the status of the pandemic and how bad the second wave will be.

For this reason, and because there are no catalysts in the short term for a specific recovery in the stock, I see no reason to buy today. Instead, like Warren Buffett, I would look elsewhere for high-quality businesses to take a long-term position in.

One example of a stock your money would be better off invested in is a business like **Kinross Gold**.

While the uncertainty has been unfortunate for several stocks, especially a stock like Air Canada, for gold stocks, it's been a major catalyst for growth.

The economic consequences have forced money supply levels to skyrocket around the world, making gold considerably more valuable.

And as the price of gold increases, the companies that produce gold see their profits rise rapidly.

Kinross specifically is one of the best of the bunch with operations in the U.S., Brazil, Chile, West Africa, and Russia. The stock is up roughly 100% year to date and continues to climb higher.

Bottom line

It can be easy to want to buy speculative investments, but these are usually way too risky. Instead, stick to high-quality companies you can rely on.

While gold is still a speculative investment, it's considerably lower risk. So, I would buy soon, because gold has already rallied considerably, and you don't want to miss any more gains.

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