



Warren Buffett: Avoid Air Canada (TSX:AC) Stock

Description

Warren Buffett has spent 2020 perplexing investors and analysts left, right, and centre. The current financial environment is challenging on all fronts due to the pandemic – something we will remember in history as a significant black sheep event. Buffett has made things more confusing by being seemingly uncharacteristic with his investment decisions.

The Oracle of Omaha stayed away from airline stocks for several decades. He referred to airlines as a disaster for capital, long before disaster struck in the form of this global health crisis. Despite his statement on airlines, he became one of the leading investors in *four different airlines* by 2019.

His stance on airlines changed last year, and he said, “They’re like the Chicago Cubs. And they got that bad century out of the way. The hope is they will keep orders in reasonable relationship to potential demand.”

All that changed when the pandemic struck and crushed every airline company in the world. The CEO of **Air Canada** ([TSX:AC](#)) said that the current crisis is worse than 9/11, SARS, or the crisis of ‘08 combined for airlines.

Buffett’s reaction to airlines

Amid the initial panic surrounding COVID-19, Buffett retained his positions in airlines. He said that he would not sell airlines back in March 2020. A few months after making the statements in support of airlines, he reduced his airline positions entirely. For someone known for making long-term bets, his divestment in airlines was a strange move.

And it’s not just the airlines, either. Buffett has remained bearish about investing in general for the past several months. He just continues to [stockpile an increasing amount of cash](#) like he expects another major market meltdown that could possibly be worse than the March bottom.

The year 2020 has been rough on Air Canada stockholders. The airline has become quite cheap for investors who have held shares for a long time. Many investors still consider it an excellent long-term

buy due to the massive discount it is trading for on the stock market.

Is Air Canada an excellent long-term bet?

Any company that was soaring the skies for a long time but is trading for a low price can seem attractive to value investors. There is always the chance of upside to owning high-quality stocks with substantial intrinsic value. However, investors need to be wary of Air Canada. While it may look attractive right now, it also [reported another significant loss](#) of \$1.75 billion in Q2 2020.

Air Canada has made efforts to bolster its balance sheet through \$5.5 billion in new debt and equity. Still, the airline continues to burn through its cash reserves. Spending more than \$15 million each day, the company is enjoying a better quarter than the last one. It does not change the fact that AC continues to lose money, which is not a good investment in my books.

Foolish takeaway

Most of the failures leading to these horrible results for Air Canada are due to factors out of the airline's control. A ship with no control over where it sails and relying solely on external factors to guide it to safety or ruin is not something that inspires confidence.

I would recommend investing in companies that can control their destiny by working through the current situation. There are plenty of non-cyclical companies trading on the **TSX** that can make a better bet than AC. For now, however, I would advise staying away from Air Canada.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:AC (Air Canada)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Sharewise
6. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Date

2025/08/23

Date Created

2020/08/24

Author

adamothonman

default watermark

default watermark