Beware! Staying Invested in Air Canada (TSX:AC) Could Cost You a Fortune

Description

The bears are taking over the stock market. There is some huge selling happening in the U.S. markets. But the **Toronto Stock Exchange** is better off. In such uncertain times, one thing you want to be certain about is not losing your money. And let me warn you: staying invested in the airline industry is a gamble. When **Air Canada** (TSX:AC) stock tanked 75% in March after the travel restrictions chained its wings, some investors thought it to be an excellent value stock. But prominent value investor Warren Buffett thought otherwise. In April, without a second thought, he sold $6 billion worth of airline stocks.

Buffett doesn't consider selling airline stocks a mistake. Instead, he considers it to be correcting a mistake. In the last two weeks of August, AC stock rallied more than 15% on the back of its efforts to convince the Justin Trudeau government to ease international travel restrictions. But the outcome was another 10-day extension on travel restrictions.

Air Canada is losing value

AC stock rally is not backed by fundamentals. And such a rally is not for investors but for traders and speculators who earn on volatility. If you think that AC is a value stock at

I have plenty of reasons to be bearish on AC. The airline has been operating at just 8% of its capacity in the second quarter. Even when domestic air travel resumed, the airline operated at 20% of its capacity. As the airline depends on international travel for 70% of its revenue, extended border restrictions are only burning a hole in AC's indebted pocket.

You can understand the magnitude of the pandemic impact on AC with its recent restructuring. The airline knows that air travel will not return to the pre-pandemic level anytime soon. And maintaining a high capacity is not economically feasible. Hence, it slashed 20,000 jobs and retired 75 aircraft.

It has given a rough time frame of three years for air travel to return to the pre-pandemic level. The truth is that no one knows when frequent air travel will resume. The extended travel restrictions have already eaten up three months of these three years. This three-year forecast is the time it has bought from its shareholders to get back in business.

But the AC stock will begin to rally only after the airline returns to profit. And that won't happen for another five to seven years, assuming that international travel returns to pre-pandemic levels in three years.

The opportunity cost of staying invested in airlines

My fellow Motley Fool writers always say that Air Canada is a good stock, but it needs time and patience to give returns. Now, five to seven years is a lot of time, and it entails a huge opportunity cost. Instead of staying invested in a loss-making airline stock, you can put your money in **Descartes Systems** (TSX:DSG)(NASDAQ:DSGX) stock, which is rising at a CAGR of 20%.

If you invest $6,000 of your Tax-Free Savings Account (TFSA) contribution in Descartes now, it will grow your money to $15,000 by the end of 2025. I arrived at this number by assuming the stock will continue to grow at 20% CAGR. By the time AC stock is ready to rally again, Descartes will double your money.

Consider two scenarios.

Scenario one: You invest $6,000 in AC stock and stay invested in it for five years. You are at the risk of losing the $6,000 if the airline goes bankrupt. But you are also losing the Descartes opportunity that would earn you $15,000. Even if AC avoids bankruptcy, your $6,000 won't grow until 2025.

Scenario two: You invest in Descartes and convert your $6,000 into $15,000 in five years. Taking the best-case scenario,

CATEGORY

1. Coronavirus
2. Investing
3. Tech Stocks

TICKERS GLOBAL

1. NASDAQ:DSGX (Descartes Systems Group)
2. TSX:AC (Air Canada)
3. TSX:DSG (The Descartes Systems Group Inc)

PARTNER-FEEDS

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

Category

1. Coronavirus
2. Investing
3. Tech Stocks

Date
2025/08/23
Date Created
2020/09/14
Author
pujatayal