



How to Profit From Air Canada (TSX:AC) Stock's Volatility

Description

Air Canada ([TSX:AC](#)) stock is moving up and down the \$14-\$20 price range on the back of the wavering sentiments around the future of air travel. This price range represents an upside of 40% and a downside of 30%.

The international travel restrictions end on September 30, provided the government doesn't extend it further. It is impossible to predict the air travel demand once these restrictions are eased. This uncertainty would make AC stock even more volatile in the fourth quarter.

The world has changed for airlines

As Warren Buffett said, "The world has changed for airlines." He was right. Airlines started the year running at full capacity, introducing new routes, increasing their fleet size, and collaborating with partners to boost reward points. The airports were flooded with travelers.

Suddenly, people stopped traveling and airlines grounded almost all their planes, as governments worldwide closed their borders for non-essential travel to stop the spread of coronavirus.

The few flights that airlines are running are flying with only a few seats filled. Airlines are canceling and consolidating flights more frequently due to lower bookings. They are not even refunding the ticket amounts to passengers, creating frustration among consumers.

Air Canada's efforts to revive demand

AC tops the list of refund complaints. Even though consumers are raging with complaints on AC, the airline offers a wide range of international travel options. The airline is doing every possible bit from its end to rebuild consumer confidence in air travel and revive demand.

AC has opened voluntary COVID-19 test booths for passengers arriving at the Toronto Pearson airport to encourage the government to levy the 14-day quarantine rule on scientific methods. It is also

offering complementary [COVID-19 medical and quarantine insurance](#), which passengers can claim the benefit for if they are tested positive.

AC is also introducing a domestic travel pass for up to three months and revamping its Aeroplan loyalty program. One thing it's not doing is raising the airfare, as it is more focused on filling seats and getting people flying again. How these efforts will turn out remains to be seen in the fourth quarter.

Benefiting from Air Canada stock's volatility

Air Canada stock is already more volatile than the market itself. The stock has been moving up and down the \$14-\$20 price range on the news sentiment. The general public owns 65% of AC's shares, and institutional investors own the remaining 35%. None of these institutional investors are hedge funds. Well, that explains Buffett's exit from airlines.

This means that AC stock won't see any major movements. Institutional investors have millions of dollars' worth of position. Hence, when they buy and sell, the share price moves significantly. But this also shows that hedge funds are not betting on AC, probably because they don't see growth.

I will side with the institutional investors. AC is doomed for multiple years of losses and probably a [bankruptcy in the next three years](#) if air travel doesn't recover significantly by 2022. But retail investors are holding it strong. AC stock is still in the **TSX Composite Index**, with a market capitalization of \$4.75 billion.

You can buy the stock and wait a decade for it to grow, with the risk of losing all your money if the airline files for bankruptcy. Or you can trade it for the short term, where you buy the stock near the lower end of its \$14-\$20 range and sell it when it comes close to the higher end of its range. However, this is like walking on thin ice.

Investor corner

A better way to make money out of money is to invest in stocks that have the potential to grow and earn more profits. If you love planes, instead of Air Canada, consider investing in **Cargojet**, which provides time-sensitive, premium, overnight packages. While the borders are closed for passenger air travel, there are no restrictions for cargo travel. Cargojet stock surged 81% year to date, and it would grow further in the mid-term.

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