



Warren Buffett and Air Canada (TSX:AC) Stock: What to Expect

Description

Warren Buffett was once a big fan of airlines. At the start of 2020, his holding company **Berkshire Hathaway** (NYSE:BRK.A)(NYSE:BRK.B) owned millions of shares in *four* different carriers.

Analysts have long suspected that he could have interest in **Air Canada** ([TSX:AC](#)). Once you dig into the details, it all makes a ton of sense.

Here's what to expect from a potential Buffett and Air Canada tie-up.

Things are different

It's important to remember that Buffett wasn't always a fan of airlines. For decades, he warned others against buying into the industry.

In 2002, he told *The Telegraph*, "I have an 800 (free call) number now that I call if I get the urge to buy an airline stock. I call at two in the morning and I say: 'My name is Warren and I'm an aeroholic.' And then they talk me down."

What made him so bearish on the industry? Buffett simply looked at history.

"The airline business has been extraordinary," he explained. "It has eaten up capital over the past century like almost no other business because people seem to keep coming back to it and putting fresh money in. You've got huge fixed costs; you've got strong labor unions and you've got commodity pricing. That is not a great recipe for success."

Indeed, for years airlines were a terrible investment. But following the financial crisis, conditions finally improved. From 2009 to 2019, Air Canada stock rose 50 times in value! The difference maker was a balance between supply and demand. That finally encouraged Buffett to take a position.

"It's true that the airlines had a bad 20th century. They're like the Chicago Cubs. And they got that bad century out of the way," he [told](#) *CNBC* in 2017. "The hope is they will keep orders in reasonable

relationship to potential demand.”

Will Buffett buy Air Canada?

The Oracle of Omaha hasn’t take a position in Air Canada yet, but the rationale is there.

Clearly, Buffett prefers airlines with limited competition. In previous decades, dozens of carriers competed aggressively. Now, just four airlines control 80% of the U.S. market.

In Canada, it’s *even more* concentrated. Air Canada alone controls roughly 50% of the domestic share. That should be enough to pique Buffett’s interest. In typical conditions, it would be reasonable to expect an investment any day. But these are [not](#) normal conditions.

Buffett started 2020 with a \$4 billion stake spread across four different airlines. Today, he owns *zero*. What happened?

“The world has changed for the airlines,” he recently revealed. “I don’t know if Americans have now changed their habits or will change their habits because of the extended period.”

In summary, there’s too much uncertainty for Buffett to remain invested. His entire thesis was that supply and demand finally normalized enough to produce long-term profits. With a historic glut of planes versus passengers, airlines are hemorrhaging cash.

Buffett and Air Canada are still an ideal match, but the timing isn’t there yet. You can sit on your hands and wait, or you could target other growth stocks that are ready to rise now.

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