



Warren Buffett Warns: Don't Buy Air Canada (TSX:AC) Stock

Description

When it comes to airlines, Warren Buffett is confusing. He went from *hating* these businesses to *loving* them.

In a 2007 investor letter, he excoriated the industry.

“The worst sort of business is one that grows rapidly, requires significant capital to engender the growth, and then earns little or no money,” Buffett [began](#). “Think airlines.”

He wasn't finished with his criticism.

“Here a durable competitive advantage has proven elusive ever since the days of the Wright Brothers,” Buffett added. “Indeed, if a farsighted capitalist had been present at Kitty Hawk, he would have done his successors a huge favor by shooting Orville down.”

But then something amazing happened.

Buffett changed his mind

At the start of 2020, **Berkshire Hathaway**, Buffett's holding company, owned millions of shares in four different airlines. What changed the guru's mind?

“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 explained. “The hope is they will keep orders in reasonable relationship to potential demand.”

This explanation is actually very insightful.

For decades, airlines racked up a ton of revenue dollars, but profits were hard to come by. That's because the industry kept adding new capacity to meet new demand. This created a hyper-competitive atmosphere in which long-term profits were ephemeral.

What Buffett noticed, however, was that the industry landscape changed in recent years. In previous decades, dozens of airlines competed over a single route. Today, 80% of the U.S. market is dominated by just four players. Those are the four stocks he bought.

It's clear what Buffett likes: airlines that face limited competition. That's why many believe he'll soon buy stock in the biggest Canadian carrier.

Will he buy Air Canada stock?

Will Buffett end up buying shares of **Air Canada** ([TSX:AC](#))? It's not difficult to connect the dots.

Buffett will only invest in airlines if there's a consolidated market. He proved willing to jump in when four airlines controlled 80% of the U.S. market. That's a very encouraging sign for Air Canada investors.

"In Canada, it's even more concentrated," I recently [wrote](#). "Air Canada alone controls roughly 50% of the domestic share."

Air Canada is a match made in heaven for Buffett. He was willing to bet big on U.S. carriers with 20% market shares. Here, he can buy a carrier with a 50% domestic market share.

Air Canada should be Buffett's favourite airline stock, but there's a catch: Buffett no longer owns *any* airline shares. That's a \$4 billion bet wound down to \$0. He changed his mind yet again.

"The world has changed for the airlines," he explained, noting that uncertainty is rampant, and a recovery may not appear for years. One industry CEO believes the industry will be permanently smaller.

This is very telling. Air Canada is the perfect fit for Buffett on paper, but he's *still* refusing to invest. In fact, he refuses to invest in the entire industry. With COVID-19, these companies simply don't control their own future, no matter what their market share is.

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