



## Yikes! Air Canada (TSX:AC) Stock Just Got Some Scary News

### Description

**Air Canada** ([TSX:AC](#)) stock crashed in 2020. Shares traded above \$50 at the start of the year. Today, they're priced at just \$15.

The biggest challenge, of course, is the coronavirus. No sector has arguably been hit harder than airlines. Industry revenue is 95% lower than 2019 levels.

But airlines are famous for their boom-and-bust histories. Right now, we're clearly in a bust cycle, but if you catch shares at the right time, you could make a fortune. From 2012 to 2019, for example, Air Canada stock rose *50 times* in value!

Many investors think this is another chance to strike it rich. Before you jump in, make sure you understand some recent news. Few people are paying attention, but this is truly scary.

## Air Canada is struggling

Warren Buffett hated airlines for nearly his entire career. He famously threw the industry under the bus any chance he got. His most important [comment](#) came in 1992, when he explained why investing in airlines was so hard.

"Investors have poured money into a bottomless pit, attracted by growth when they should have been repelled by it," Buffett said.

This statement is perhaps the best summation of the industry's troubles. The key is to focus on the word *growth*. Buffett isn't necessarily talking about revenue or profit growth. He's talking about supply growth.

For Air Canada to boost sales, it only has a few options. The first is to charge customers more, a difficult feat in a price-conscious market. The second is to fly their planes more, but there are only 24 hours in a day. The final option is to buy more planes. That's the easiest and most popular route.

Buying more planes to expand is costly. And once the planes are purchased, they can have decade-long lives. That makes it easy for the industry to reach a level of over-supply. Industry revenues rise, forcing carriers to buy more planes, which pushes prices down, eliminating all of the benefits of expansion.

This back and forth has dominated airline stock prices for a long time. When the industry has too many planes, stock prices fall. When industry supply is tight, stock prices rise.

## The worst just happened

Right now, passenger demand is way lower than 2019. That means there are way too many planes. The market is remarkably unbalanced, and unfortunately, many analysts think demand will be permanently smaller. That'll create industry over-supply for another decade or more.

As Buffett warned, this is exactly the dynamic to avoid. It seems like Air Canada's CEO agrees. Last month, he announced his retirement after 15 years at the helm. To make matters worse, he just [revealed](#) that he'll join the board of directors at **Bank of Nova Scotia**, so it's not like he wants to quit working altogether.

The reality is that every airline CEO is scared. They know the industry isn't primed for a quick recovery. This will be messy work for years to come.

Air Canada's CEO is quitting early, before major bankruptcies arrive in North America. You should also steer clear. The wait will simply be too long.

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