



Warren Buffett Says: Stay Away From Airlines Like Air Canada (TSX:AC) Stock

Description

Warren Buffett is a smart guy. If you'd invested in his holding company **Berkshire Hathaway**, you could have made a fortune.

It's usually a mistake to bet against him. That's why his opinion on airline stocks is so intriguing. This is one of the rare instances where Buffett has changed his mind multiple times in a single year.

If you own stocks like **Air Canada** ([TSX:AC](#)), you'll want to pay attention.

History is revealing

Airlines are a [mess](#) right now. The pandemic crushed demand, and there aren't many signs of improvement. In some ways, Buffett saw this whole thing coming.

"The airline industry's demand for capital ever since that first flight has been insatiable," Buffett explained many years ago. "Investors have poured money into a bottomless pit, attracted by growth when they should have been repelled by it."

That was actually a very telling depiction.

The airline industry has been growing by leaps and bounds for decades. Passenger traffic has basically been going up every year, barring one-off challenges like the coronavirus. To match this demand growth, airlines have ordered more and more planes.

This is the issue at hand. To grow, airlines like Air Canada need to buy more planes. But when demand slips, those planes still exist. The market is unable to flexibly adapt to new market conditions. This creates a structural boom-bust cycle for the industry.

The weird thing is that Buffett changed his mind in 2014. For nearly his entire investing career, the guru avoided airlines. That year, however, he bought millions of shares in *four* different carriers.

What changed?

Buffett told reports that he thought the “bad century” was out of the way. He hoped the industry would finally be able to match plane supply with passenger demand.

What does Buffett think now?

This is a rare event for Buffett. After buying millions of shares in 2014, he completely sold all of his positions earlier this year. He's done with airlines for now.

Yet again, the guru got straight to the point.

“We took money out of the business basically even at a substantial loss,” Buffett explained. “We will not fund a company ... where we think that it is going to chew up money in the future.”

That's the challenge right now for all airlines: chewing up money. Just look at Air Canada. The business is burning more than \$1 billion every 90 days. That's simply unsustainable.

Perhaps the biggest challenge is Buffett's concern over plane supply. Right now, we have enough planes for a 2019 world, but many airline CEOs think demand will be lower for several years to come. One thinks demand will be *permanently* lower.

It doesn't take an economist to see the future. Too many planes chasing too few passengers will limit or even eliminate the potential for profits. That's a tough vision for airlines considering they're already losing money.

Stocks like Air Canada are headed for an uncertain future, but the odds are stacked against them. That's why Buffett completely abandoned the industry earlier this year.

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Date

2025/06/30

Date Created

2020/11/14

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