Buying Air Canada Stock? Invest in This 1 Asset Type Too!

Description

Investors snapping up shares in **Air Canada** (TSX:AC) should consider building a barbell portfolio. In fact, this is pretty much the perfect market to begin to build such a portfolio.

For some asset types, earnings are almost secondary. Just look at some popular but unprofitable stocks with high momentum and you'll see what I mean. From tech to cannabis, it's often the hype and the headlines that put that extra spin on growth stocks.

For other sectors, though, earnings are picked over diligently by shareholders, analysts, and pundits alike. There's a good reason why earnings season is always such a busy time. For investors building a barbell portfolio, earnings can help to determine which stocks belong at which end of the risk spectrum.

Air Canada will rip or dip on earnings in 2021

Aviation stocks aren't the homogenized space that some investors might assume them to be. For instance, there are commercial airlines, cargo carriers, space and military, as well as parts manufacturers. Take just two names that most Canadians will likely be very familiar with: Air Canada and **Cargojet** (TSX:CJT).

Air Canada has lost half its stock value year on year despite strong recent momentum (see a seven-day boost of 18%). In the last 12 months, on the other hand, Cargojet has added 118% to its share price. But in the past week, its behaviour on the **TSX** underperforms Air Canada's by more than two thirds.

It's an odd scenario. Air Canada is rising because the vaccine breakthroughs support a recovery thesis. But Cargojet actually forms part of an infrastructure that will help to deliver the vaccine. The markets have got these stocks back to front. But, as is often the case, momentum is driven by events. And events are rarely what the markets perceive them to be, which is why hype can drive stocks higher.

Build on predictability

But for longer-term wealth generation that satisfies a lower risk strategy, investors need to cut through the headline blur. A recovery will be *measured by earnings reports*. One way to cut down on underperformance risk while investing in near-term upside is to counterinvest. This is where the barbell analogy comes in. TSX investors can balance near-term gains from Air Canada with a stock such as **Fortis** (TSX:FTS)(NYSE:FTS), for example.

The polar opposite of Air Canada, Fortis is a long-term play centred around predictability. A dividend yield of 3.9% is moderately rich. It's also well covered. A payout ratio of 72% is likely to remain steady for the next one to three years. In terms of value, a P/B ratio of 1.3 times book is reasonably low. There's also some growth ahead: Total returns by mid-decade could be in the 70% range.

The industrial thesis for buying Fortis stock couldn't be stronger. Regulated energy production and distribution has been proven, in the face of the pandemic, to be essentially bulletproof.

In summary, investors should by all means speculate on value stocks such as Air Canada. But they should also balance this with long-term safety – and some passive income.

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