Air Canada Stock vs. New Apple iPhone SE 2020 Trade: Year-end Review

Description

The year 2020 is finally drawing to a close and it's time to take stock of some investment decisions made during the pandemic-stricken year. Today I will review the performance of an earlier *Buy* recommendation on **Air Canada** (TSX:AC) stock made during the March-April lows this year. An investment decision was made on April 17 to buy AC stock instead of a newly released **Apple** iPhone SE 2020. Here's how it has performed so far.

The original thesis for buying Air Canada stock

The call to buy Air Canada's stock was a contrarian buy-the-dip kind of call for long-term investors. The airliner's shares had tumbled by 75% between mid-February and late March as planes were grounded and heavy restrictions were placed on domestic and international travel in an attempt to curb the spread of the COVID-19 pandemic.

Further, the call to invest in AC stock was also meant to instill an investing culture. One could practically learn to delay the satisfaction from current consumption and cultivate investing habits for long term capital accumulation and future financial freedom.

I was so confident at the time and claimed: "This is a once-in-a-long-while best time for retail investors to buy beaten-down Air Canada stock for outsized returns as normalcy returns, economies rebound and asset prices recover post the 2020 recession."

You could find more details in the original write-up here.

How has the trade played out so far?

Air Canada's stock price averaged $17.97 on April 17. At the time of writing on Friday shares traded at around $26.43 for a holding period return of about 45%. The contrarian bet has paid off very well so far.

On the other hand, the price of the new iPhone SE remains the same at $599 for the 64Gig model,

$699 for the 128 Gig model, and $899 for the 256 Gig model.

Investing $899 (the price for the 256 Gig model) could buy 50 shares in Air Canada stock in April. The position would have grown to about $1,320 by now. If I still needed a nice gadget, I could get the latest iPhone 12 mini and keep some change.

Is AC stock still a good buy now?

One could still add new small positions in Air Canada stock today. However, outsized returns on contrarian bets are mostly gained on investments made when everyone else is fearful. By the time other investors feel comfortable buying Air Canada stock, you should be selling to them while making a profit.

Unfortunately, the man who urged investors to get greedy when everyone else is fearful got fearful on U.S. airline stocks. He bailed out on the dip.

Mr. Warren Buffett's decision is understandable though. The airline industry remains in deep trouble. Passengers remain scarce and controls on international travel remain tight amid the coronavirus pandemic. Air Canada planned to cut its operating capacity by 75% during the fourth quarter as management aligns operations with the smaller industry footprint expected to hold for some years to come.

That said, my original thesis was a long-term-recovery play on the airliner's stock. It remains a high-risk bet, but I would still hold the position into 2021.

AC stock returned a 77% return in 50 days recently as news broke out about successful COVID-19 vaccines late this year. The market is warming up to beaten-down COVID-19 stocks as the vaccine trade gains momentum. Travel restrictions could ease as more countries vaccinate citizens. Masses could feel more comfortable flying again after receiving a shot. The skies could open up again.

I expect government aid to continue alleviating the pain on this national strategic asset. Air Canada has received $400 million in federal aid through the Canada Emergency Wage Support (CEWS) program so far. The company's $8.2 billion in liquidity by September 30 is quite handy. The plan is for the airline to hold the fort until the pandemic is over. The outlook is getting much better as COVID-19 vaccines start rolling out.

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