



Warren Buffett: How to Invest in Air Canada (TSX:AC) Stock

Description

Air Canada ([TSX:AC](#)) is one of the most dramatic stocks on the market today. After nearly collapsing during the initial COVID-19 bear market, shares have surged in recent months off the back of positive vaccine news. Now investors are wondering whether Warren Buffett himself will jump in.

The famous guru has made dozens of comments over the decades, showing investors exactly how to invest in airline stocks. If you want to get inside his head, keep reading.

Buffett wasn't always a fan

For years, airline stocks were a sure way to lose a bunch of money.

"If you want to be a millionaire, start with a billion dollars and launch a new airline," quipped Richard Branson.

Warren Buffett also had some choice words for the industry.

"The airline industry's demand for capital ever since that first flight has been insatiable," he stressed in 2007. "Investors have poured money into a bottomless pit, attracted by growth when they should have been repelled by it."

His comments on growth are critical to understand. As the industry grew, airlines rushed to buy more planes to take advantage of higher demand. This added more plane capacity, pressuring prices, eliminating any of the so-called growth benefits.

Airline stocks would only take off when they solved the supply-demand imbalance.

Then he changed his mind

By 2014, Buffett was a major shareholder of several different North American airlines. What changed?

"It's true that airlines had a bad 20th century. They're like the Chicago Cubs. And they got that bad century out of the way, I hope," he [told](#) *CNBC*. "The hope is they will keep orders in reasonable relationship to potential demand."

That's exactly what happened; just look at Air Canada stock. From 2012 to 2019, shares grew 50 times in value! That incredible performance followed a period in which shares *lost* 90% of their value. Clearly, industry dynamics had changed for the better.

As soon as profits starting to grow — not just revenues — Buffett jumped in. The COVID-19 pandemic ruined the party, but another bull market will eventually emerge.

Here's when you should buy

To be clear, Buffett sold *all* of his airline shares shortly after the pandemic began.

"The world changed for airlines and I wish them well," he revealed earlier this year, noting that he lost money on his investments.

"That was my mistake. The airline business — and I may be wrong and I hope I'm wrong — but I think it's changed in a very major way," Buffett added. "The future is much less clear to me."

The reason he's nervous is due to the same old demand-supply dynamic. We have enough planes for a 2019 world, but demand remains 90% lower year to year. It's the worst possible scenario for profits.

It's pretty [easy to guess](#) when Buffett will jump back in: when demand exceeds supply. Airlines like Air Canada likely won't be in a position to place new orders for years to come. If demand reemerges in the post-vaccine world, we could quickly see a convergence between supply and demand, triggering a clear buy signal.

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