



Warren Buffett: Dead Wrong About Airline Stocks in 2020

Description

Warren Buffett believes that investors should seek good businesses and not just chase attractive valuations. He is of the opinion that buying good businesses (ideally at or below the fair price) and staying with them long term, or as long as they stay good businesses, is the recipe for long-term success. His investment legacy endorses this belief.

But what happens when a business that you invested in is no longer a good business? Do you sell it right away, or should you wait for an appropriate time to unload that business from your portfolio? If you emulate Buffett, especially about what he did with the airline stocks, you will get rid of the businesses that have a potentially dark future as soon as possible, even at a loss.

But is it really the wisest course of action?

Buffett's hasty airline exodus

[Warren Buffett](#) was never a fan of the airline industry. Still, he started buying them a few years ago, and **Berkshire Hathaway** built quite a substantial stake in the four largest U.S. airlines (over US\$7 billion). But when the airline business started going downhill when the pandemic reached its peak, Buffett didn't waste much time and dumped his entire stake in the airlines.

If Buffett waited even until now to dump his airline stocks back in the market, he would have picked substantially lower losses, thanks mostly to **Southwest Airlines** and **Delta Air Lines**, because these two stocks have displayed relatively better recovery than the other two.

Buffett also made a hasty move regarding **Restaurant Brands International**, even though it made an adequate recovery and is slowly going up.

A lost Canadian chance

Buffett never bought **Air Canada** ([TSX:AC](#)), even [when the stock](#) was among the best growth stocks

traded on the TSX. But he really missed a golden chance of buying it at the recovery and selling it when the stock reached its after-crash peak in December for decent short-term gains. At its worst valuation, the Air Canada stock traded near the rock-bottom price of about \$12 per share.

From that point in March to its peak valuation in December, the stock grew over 125%. Even if it's not the peak of Air Canada's eventual recovery, this offered Buffett and all other investors a chance to double their money in less than a year (only if they'd bought and sold at precisely the right time).

The chances are that Buffett won't touch the airline stocks for a while now. It would take years for the industry to recover and become fundamentally strong anyway.

Foolish takeaway

One thing that's so perplexing about Buffett's early exit from its airline position is that he is one of the few investors who could afford to wait. He didn't need to sell the airlines to free up cash for other market crash buys, because Berkshire Hathaway was and still is sitting on a vast cash pile. It's possible that Buffett might think that airlines aren't going to become profitable businesses anytime in the near future.

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