Warren Buffett Isn't Buying Air Canada (TSX:AC) — But Here's Why You Should

Description

Warren Buffett has made it clear, the airline stocks, **Air Canada** ([TSX:AC](#)) included, are not his cup of tea in this pandemic-plagued environment. But that doesn't mean you should avoid the airlines like the plague now that we have more clarity on the COVID-19 vaccine timeline, especially if you're not a stranger to excessive levels of volatility.

While Air Canada could have much more room to run, as we march ever so closer to post-pandemic normalcy, you must understand the short- to medium-term risks before you punch your ticket into the name. Air Canada stock has been pulling back of late, and while I do think the dip presents buying opportunities, there are risks that could cause a more turbulent ride for shareholders in the New Year.

Air Canada: The risks

With the more infectious U.K. coronavirus variant that recently touched down in Canada, it'd be unwise to rule out a potential third wave that could bring forth much stricter travel restrictions or another full lockdown like the one we had back in the spring.

Britain suffered a massive spike in infections over the past few weeks, with an unprecedented 53,135 new cases of COVID-19 being reported on Tuesday, up over 28% from the 41,385 reported a day prior.

As I [predicted](#), Canada's U.K. travel restrictions were extended to span weeks. And if the more contagious COVID-19 variant sparks an outbreak in other parts of the world, I wouldn't at all be surprised to see further restrictions on other nations to avert a potentially vicious third wave.

Just as things were getting better for Air Canada and the airlines, new variants could send them back into the abyss, possibly as quickly as they bounced in November, when a handful of vaccine breakthroughs were revealed. Moreover, the administration of two-dose COVID-19 vaccines could prove to be a major challenge that many investors may be discounting.

Air Canada: There's still hope

With a COVID-19 vaccine rollout that could point to the end of this pandemic in the latter half of 2021, those with strong stomachs and a willingness to take short-term pain may be in a spot to punch their ticket to a longer-term gain.

Looking at the situation as it is today, I'd expect further near-term downside as concerns over more contagious variants of COVID-19 could bring forth restrictions that could cripple Air Canada's top line.

Could travel restrictions extend beyond the U.K.? I certainly wouldn't rule it out and think the airline stocks could be in for a massive retracement, potentially to October levels.

Fortunately, new coronavirus variants are not expected to affect the efficacy rates of current COVID-19 vaccines drastically. Given Air Canada is better prepared to deal with wider spread travel restrictions and a full lockdown, the name is worth nibbling on the way down for those willing to hold the name through 2021 and potentially 2022, should the pandemic drag on for longer than expected due to unforeseen challenges with a national vaccine rollout.

Warren Buffett may have looked foolish (that's a lower-case "f") for selling his airline stocks too soon. But I think it's too soon to conclude that the man was wrong for having sold his stake, given the airline stocks are probably in for a world of pain over the coming weeks and months.

Warren Buffett isn't buying AC stock on the dip, but you should get skin in the game

While I'd prefer waiting for AC stock to pullback to $20 before initiating a position, I wouldn't be against initiating a starter position today, as long as you're ready to add on any further weakness. Bad news could be ahead, and there's a [risk](#) that it could overpower vaccine optimism as the vaccine-driven rally runs out of steam.

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