Warren Buffett: Does He Regret Selling His Airline Stocks?

Description

As governments worldwide imposed travel restrictions and closed international borders in March 2020, airline companies came crashing down. Warren Buffett was quick to act amid the onset of the pandemic and sold off US$6 billion worth of airline stocks in April.

With more than 90% of all flights grounded, the world entirely changed for airlines. Buffett's decision to sell airlines came rapidly, and many retail investors followed suit. Airlines continued losing billions of dollars.

When news of a COVID-19 vaccine emerged in November, airline stocks began rising. People began asking an important decision regarding Buffett ditching airlines.

Was he too quick to sell airlines?

Airlines are not the most popular investment for many investors. Airlines have a history of posting horrific earnings results and going bankrupt during crises because it costs too much to operate and maintain airline assets. If an airline's airplanes are not flying, they are burning cash for airlines.

The post 9-11 era saw airlines post devastating losses. Many airlines went bankrupt during the 2009 market crash. COVID-19 is the worst crisis to hit the industry ever. It makes sense that Warren Buffett decided that it would be best to cut his losses and part ways with an already troublesome sector.

Do they fit the bill?

Warren Buffett has a reputation for identifying value stocks that have immense long-term value. The companies he typically prefers have strong fundamentals and opportunities to generate revenue but are not valued to their full potential. Buffett prefers adding companies to his portfolio if he can hold the shares for at least ten years.

Considering Buffett's investing style, airline stocks seem like a mistake in the first place. All of the U.S.

airline companies he invested in posted substantial losses. Burning US$25 million a day despite severe cost cuts, his U.S. airline stocks were going to result in massive losses. Selling airlines was a matter of judging the companies on fundamentals.

Canadian flag carrier

Air Canada (TSX:AC) is not a Warren Buffett stock. However, if you are interested in a Canadian airline stock, the flag-carrier airline could be worth a closer look. Shares of the beaten-down Canadian airlines began surging with the news of COVID-19 vaccines coming out. However, the airline has lost its momentum in the stock market.

Air Canada is trading for around $20 per share at writing after climbing as high as $27.50 in December 2020 and declining as 2021 began. Many bullish investors could consider investing in the airline if it can post positive earnings this year. However, the stock could devalue significantly if Air Canada forecasts another multi-billion dollar losing year in 2021.

Foolish takeaway

Air Canada is a tricky pick to consider. The rollout of vaccines picking up pace could improve the company's revenues significantly. Whether it comes through loosening travel restrictions or offering a bailout, there are several options available in terms of providing the company with financial relief.

Despite the seemingly positive outlook, Air Canada is a speculative play. Investors might not want to invest more than they are willing to lose in the airline.

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