



Which Is a Better Contrarian Buy: Air Canada or BlackBerry?

Description

The stock market runs on three elements: value, growth, and momentum. Two investing strategies, contrarian and momentum, use these elements to make money in the stock market. They look similar but are opposite, especially in the case of **Air Canada** ([TSX:AC](#)) and **BlackBerry** ([TSX:BB](#))([NYSE:BB](#)).

Investing style: Contrarian versus momentum

The contrarian style of investing is what Warren Buffett uses. Contrarian investors buy against the tide. As Buffett says, “Be greedy when others are fearful, and be fearful when others are greedy.” This investing style takes you away from the herd mentality and rewards you in the long term.

For this investing style to work, you should be confident that the stock has long-term growth potential. For this, you should look at the company’s fundamentals.

The opposite of contrarian is momentum. In the momentum style of investing, an investor hops on to the growth bandwagon, trying to get benefit from the stock price rally. These investors adopt the herd mentality. For this investing style to work, you should be confident that there is more upside to the stock. For this, you should look at the stock’s technical indicators.

BlackBerry stock: Contrarian or momentum?

Recently, BlackBerry stock came into the limelight, as Redditors targeted the stock for a game of [short squeeze](#). From a value stock, it turned into a momentum stock. Many hedge fund investors were short-selling the stock, as Redditors wanted to profit from their bearishness.

The stock went from \$9.5 to \$31.5 in the second half of January. This momentum faded in February, and the stock corrected to its original price of \$14.4. Canada’s Warren Buffett Prem Watsa has over 13% of its portfolio invested in BlackBerry. He sees significant growth potential in the cloud-based endpoint security platform. However, his reported purchase price of the stock is \$6.63.

Using the contrarian approach, Prem Watsa bought the stock when others were selling, and he was rewarded in the long term. The stock still has long-term growth potential, as it has just started to see some growth from its mega transition from hardware to software.

The 2021 investing trend is electric vehicles (EV), and BlackBerry can ride this EV wave with its Intelligent Vehicle Data (IVY) platform. The IVY platform will serve automotive participants like automakers, EV charging providers, insurance companies, and vehicle repair services. **Amazon** Web Services will support IVY with cloud-connectivity, scalability, and a global reach and help it buck the EV momentum.

Air Canada stock: Contrarian or momentum?

Before the pandemic, Air Canada was a growth stock. The growing interest of the general public in flying caught Warren Buffett's attention, who despised airlines. In 2017, he [invested](#) in the top four U.S. airlines, hoping they maintain supply with demand and stop buying excess planes.

He invested in airlines for their cash flows but was skeptical about the supply/demand imbalance. In airlines, the supply (the number of planes) is not flexible, as it contains a high fixed cost, but demand is. Hence, when the pandemic struck in March 2020, Buffett wasted no time and sold all his airline stocks (US\$6 billion) in April.

On the demand side, he said, "I don't know that three, four years from now people will fly as many passenger miles as they did last year." On the supply side, he said, "You've got too many planes." This massive gap in demand and supply changed airlines from growth to momentum stocks.

AC stock has rallied 60% from its pandemic level of \$15 on the back of hopes. Its rally is momentum based. Hence, the stock is not able to sustain its high. And such will be the case for the next three to five years until travel restrictions ease and travel demand recovers to a sustainable level.

Which is a better stock: Air Canada or BlackBerry?

Between AC and BlackBerry, the latter is a better buy, as it has sustainable growth potential in the 2030 decade.

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Author

pujatayal

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