



How to Make Money From Air Canada's (TSX:AC) Stock Price Momentum

Description

All eyes are on **Air Canada** ([TSX:AC](#)) stock, as the new CEO takes up the challenge to fly the airline out of the pandemic crisis. The airline stock started the week with a 5% jump, as it streamlined its regional operations. AC stock price has surged 31% from \$20 to \$26.2. Will the stock hit the \$30 mark in March?

Air Canada stock's seesaw momentum

In my [previous articles](#), I've suggested trading AC stock in the \$20-\$28 price range. And I stand by it, even today, because the stock is rising purely on sentiments. In the case of sentiments, a hyped stock can grow without any fundamental value as long as it has a strong balance sheet. This goes for high-growth tech stocks, which are breaking their records while making losses.

But a sentiment rally for a capital-intensive stock like AC is limited, because its huge debt pulls down the hype and brings investors to reality. It is this debt that causes bankruptcy. And, as Warren Buffett has said in the past, investing in airlines is like funding their losses.

The sentiments around the COVID-19 vaccine got AC stock to \$27.5 in December 2020. The hope of a bailout and recovery in air travel can get the share price to \$30 in March. As these prices are built on hopes, they are not sustainable. Negative news around cash outflow can pull the stock down. Hence, this is the right time to sell AC stock rather than buy.

How to make money from Air Canada's stock price momentum

You can ride AC's seesaw momentum and make some short-term gains. But make these trades using your Tax-Free Savings Account (TFSA), or the taxes on investment income will reduce your profits. The Canada Revenue Agency (CRA) exempts your TFSA investment income from taxes.

Technical indicators play an important role in short-term trades. You buy when others sell and sell when others buy. The stock price falls when maximum people are selling and rises when most people

are buying. The Relative Strength Index (RSI) tells you where the trades gravitate. The AC stock has an RSI of 68. When this crosses 70, the stock is considered overbought. Opportunists wait for this moment and sell the stock.

If you'd invested \$500 in AC at the \$20 price point in January, sell the stock at \$27. You will gain \$174 in fewer than 40 days. But if you feel the stock can touch \$30, sell the stock in two equal tranches. Put \$250 worth of shares for sale at the \$27 price and another \$250 at the \$30 price. If your hunch proves right, you will gain \$210. But if the stock pulls back after reaching \$27, you will at least earn \$87 from the first tranche.

Can Air Canada stock sustain the \$26 price?

AC stock at the \$26 price point is not sustainable. The current stock price momentum is riding on bailout talks. The airline has a net debt of \$5 billion and a net loss of \$4.65 billion. It is burning \$15 million cash daily. It is only a matter of time till the government gives a bailout to protect AC from going bankrupt.

Once the bailout comes, if it comes, AC stock will make a new high of \$30-\$32, but then the fundamentals will set in. The International Air Transport Association [expects](#) the airline sector to burn US\$75 billion-US\$95 billion in cash in 2021. This up from its previous estimate of US\$38.7 billion but lower than the industry's loss of US\$118 billion in 2020.

Final thoughts

The year 2021 is crucial for AC. If it survives the year without going bankrupt, it is likely to return to recovery in 2022. If you want to gain from Air Canada, consider it for short-term gains. Also, note that there are better recovery stocks where your money can double.

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