Buy at Your Own Risk: Air Canada (TSX:AC) Stock at $28

Description

Are you wondering whether or not you should buy **Air Canada** (TSX:AC) stock at $28.5? No matter which stock it is, one rule has a higher probability of giving returns: buy the dip and sell the rally. So, now, ask yourself, is the $28 stock price a dip or a rally?

Air Canada's stock price momentum

There are two ways to look at a stock's momentum: the 50-day momentum for a highly volatile stock and the 100- or 200-day momentum for a less-volatile stock. At 2.55 beta, AC is a highly volatile stock. So, you make a call as to whether the stock is in a dip or a rally by comparing its current trading price with its 50-day moving average.

AC's 50-day moving average is $24.11, which means the stock is currently in a rally. Moreover, its Relative Strength Index is 64, which represents more buyers than sellers. However, the stock is not overbought yet, which shows it has room to grow. But the highest that it can surge is $30 or $32. After that, the stock will fall back to the $28 price.

What is the best price to buy Air Canada stock?

A logical data-driven decision is to either hold or sell AC stock at the current price. If you buy the stock at $28.57, you can get a maximum of 12% return. This means you can convert $100 to $112, and that's in the best-case scenario. There is a higher chance of you losing 16%, where $100 becomes $84.

The $28.5 stock price doesn't give an attractive risk-to-reward ratio. A better price to buy AC stock is $24. This is a price it normally trades after the vaccine news. And the best price to buy AC stock is $20-$21, which is its 200-day moving average.

I can talk about the fundamentals, possible news stories, and business challenges. But you have already been reading about it on Motley Fool Canada. Here I will be more direct and talk about the trading aspect of the stock. How can you make money from AC stock price volatility without putting your portfolio in jeopardy?

How to buy Air Canada stock

The Canada Revenue Agency (CRA) allows you to invest $6,000 in your Tax-Free Savings Account (TFSA) in 2021. If you maintain this limit, you can enjoy tax-free withdrawals. Invest 40% in growth stocks, 40% in dividend stocks, 15% in ETF, and 5% in speculative bets. This is just one combination I use for my portfolio. You can decide your combination based on your risk appetite, but ensure that you are willing to lose the amount you put in speculative bets.

AC falls under speculative bets. Now, if you invested $300 (5% of $6,000) in AC a year back, you would have $664 in speculative bets. If you don't own AC stock, then set aside $300 and follow the below steps:

- Buy $150 worth of AC stock when its price falls to $24.
- Buy another $150 worth of AC stock when its price falls to $20-$21.
- Sell 50% of your AC holdings when its price rises past $29.
- Sell another 50% of your AC holdings when its price rises past $32.

Final thoughts

It is impossible to time the market and predict a stock's highs and lows. Don't lose your mind finding the bottom. All you need is to buy somewhere close to the bottom. It may so happen that you buy the stock at $24 and the next day it falls to $22. The phased buying and selling will help you avoid missing out on the dip as well as the rally. If you make two $150 purchases at $24 and $22, your average purchase price comes to $23. Similarly, if you make two sell transactions at $29 and $32, your average sell price comes to $30.5. This way, you can convert $300 to $398.

Instead of speculative bets, focus on growth and dividend stocks.

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