



## Will Warren Buffett Give Airline Stocks Another Shot?

### Description

Warren Buffett's most remarkable move of 2020 was probably his decision to hit the sell button on shares of his airline stocks. The man had spread his bets across a wide range of U.S. air travel giants, which went against the man's prior distaste for the industry. Before the pandemic, the airlines were ridiculously profitable, yet their valuations were ridiculously low, as though investors were expecting something bad to happen come the next crisis.

### Warren Buffett should have never changed his tune with the airline stocks!

While many of the major airlines had become more economical and probably more resilient to crises, they didn't stand a chance when the insidious coronavirus landed. Had this recession been caused by anything other than a pandemic, I'm pretty sure Warren Buffett would have been right, and the airlines would have held their own far better than past economic downturns.

In any case, a pandemic wasn't on Warren Buffett's radar when he decided to change his tune by getting into the airline stocks. And had he stuck to shunning the airlines, despite their depressed valuation multiples, he wouldn't have put himself in a tough spot and been pressured to ditch his airline shares at a loss.

Fast forward to today, and the airline stocks are looking great again. **Southwest Airlines** has already recovered, **Delta Air Lines** is getting close, and Canadian airline **Air Canada** ([TSX:AC](#)), which Warren Buffett has yet to touch, is just beginning its ascent.

### Air Canada: The light at the end of the tunnel has never been closer

The COVID-19 vaccine rollout is going smoothly in the United States. And Canada, while lagging, is likely to follow suit. While Warren Buffett made a mistake by selling out of all his airline stocks last year,

I still think it's far too soon to conclude that. Why? There's a light at the end of the tunnel, but there's still no telling how far off this light is and when it will be reached.

Moreover, one must not discount the potential to take a backward step towards the darkness. Airline stocks, I believe, remain risky. Some may even prove to be overvalued, given overly bullish expectations of an economic reopening and the start of the "Roaring 2020s."

There's still too much [uncertainty](#) to conclude that Air Canada and its peers to the south are out of the woods with this crisis. In the war between vaccines and variants, vaccines are winning. But could this change as the third wave of cases bring forth a greater probability of further mutations?

I have no idea. Nobody does. As such, hungry investors must be aware of the downside risks associated with airline stocks like Air Canada. The new normal could outlast the pandemic, and profitability prospects may forever be tarnished.

## **Air Canada remains a speculative bet with an option-like risk/reward**

On the flip side, a bull-case scenario could occur. COVID-19 could be wiped off this planet; vaccine boosters could give us herd immunity by next year. Such a scenario would see us rip our masks off in celebration as we book a flight to the travel destinations we've been putting off for two years. Such pent-up demand could result in sky-high ticket prices and great prosperity for Air Canada and its peers in the post-COVID world. In such a case, Air Canada stock could soar to new heights.

## **Warren Buffett has likely had it with the airlines!**

At the time of writing, I'd say investors think the bull-case scenario is far likelier than the bear-case scenario. As such, I can't say I'm a huge fan of the [valuations](#) in the airlines like Air Canada and just don't see Warren Buffett buying back the shares of the airlines he ditched around a year ago. I think he's had it with the airlines for good this time.

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