Air Canada (TSX:AC) Stock: Beware This Investing Strategy

Description

Investors have been watching **Air Canada** (TSX:AC) stock like hawks lately. The $8 billion company has seen a seesaw of momentum, with investors wondering whether they bought to early or too late. But as the company continues to be a top-searched item, I'd like to cover one dangerous method of investing in this stock that's caught on.

Problem one: Short-term investing

Investors want to get rich, and quick. Everyone wants to, but it's not a great strategy. Those who are looking to invest in any company should be eying those companies as a long-term investment. Whether a company is up or down, investors need to feel confident that years down the line, the company will still be trending upwards.

The issue lately is that investors are looking to put in some cash to Air Canada stock and see that cash triple in short time. Then they want to sell it. Here's the first problem. While the long term is a bit more predictable, with the short term, that simply isn't the case. You can see it for yourself in the last year for Air Canada stock. Everyone thinks it will simply pop back up to $50 per share, but that's unlikely to be the case this year or even a few years from now.

The reason is its debt. The company has $13 billion in debt that will need paying down. Even with a government bailout, the company will continue losing money until flights are in the air consistently. Even then, the government stated the company must refund all vouchers to customers. That's a huge chunk of change.

Any bad news is likely to push the share price down again. So, if you're hoping to make short-term gains, unless you're a professional, it's likely you'll miss out.

Problem two: The TFSA

Another strategy that goes along with short-term investing is using the Tax-Free Savings Account

(TFSA). You might be thinking it would be a great idea to use your TFSA to get tax-free cash from short-term investments. You can buy and sell as often as you want, tax free! But there's another warning to go along with that.

This year, the contribution limit is $6,000. If you've been contributing each year to your TFSA, it's likely you only have $6,000 to contribute. So, let's say you put that $6,000 into Air Canada stock in January, then you decided to sell it when it hit 52-week highs recently. Great!

Then you decide during a pullback you'll buy back in, so you can make more short-term cash. Sorry, no can do. You have a contribution limit for 2021, and that does not fluctuate. So, if your limit was $6,000 and you've already put in $6,000 this year, you're done. Even if you take that money out. You'll have to wait for more contribution room next year.

You can always check by logging into the My CRA Account, or calling the Canada Revenue Agency just to be sure. But again, this is a dangerous game. If you trade too often, the CRA may freeze your TFSA, as this could constitute a business account. And then, you guessed it, you'll be taxed.

Foolish takeaway

If you believe Air Canada stock will eventually rebound in the next few years, hold onto this stock long term. But if you're trying to make some tax-free cash in the short term, I'd recommend staying away. This is a job for professionals who have access to real-time data. It's more likely you'll miss out on any opportunity and get taxed or penalized for the attempt. So, stick to the long term, and you can still see strong returns from companies like Air Canada stock.

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