



How to Make Money From Air Canada (TSX:AC) Stock

Description

Air Canada ([TSX:AC](#)) stock is back to rallying, rising 4% in one day after a 13.5% dip. That is the beauty of momentum stocks. They tend to overreact without looking at the long-term picture. The only way to make money in momentum stocks is to control your emotions. Last week, AC investors went on a sell mode, as the government bailout did not meet all their expectations. But those who [understood](#) the essence of the bailout bought the stock at the dip. They hope to benefit from the rally.

Understanding Air Canada's stock price range

I keep saying AC is a momentum stock, but what exactly is a momentum stock? Firstly, it is a highly liquid stock with high trading volume, which means you can easily find buyers and sellers. Secondly, it has shown trading patterns in the past where there is support and resistance. Thirdly, the stock's movements have nothing to do with fundamentals. However, it has a lot to do with market sentiments on news.

AC meets all three requisites. Even though the pandemic disrupted the airline industry and pushed Air Canada into a multi-year loss, its stock price more than doubled in the last year. The stock is very liquid and is mostly range bound. Before the vaccine news, it was trading in the \$14-\$20 range. After the vaccine rollout, the stock upped its range to \$20-\$28. The bailout news could push the bar to the \$24-\$32 range.

Traders are placing their bets on the bailout momentum. The first reaction to the bailout was a 13.5% dip to below \$24, because of the equity dilution. If investors were so bearish on the dilution, why did the stock find resistance at \$23? The answer is momentum.

Rules of making money in momentum stocks

Momentum stock trading has certain rules. You need to trade without emotions and plan your entry and exit strategy, looking at the technical charts. As I pointed above, AC's stock was hovering in the \$20-\$28 range, but you can't expect the stock to pull down to \$20 after the government shelled out \$5.9 billion in the bailout package. Admit it or not, that's quite a generous package that has prevented the airline's bankruptcy.

Investors looked at the bailout package and went into [sell mode](#). Others followed in panic and sold the stock, as analysts reduced AC's price target from \$31 to \$29. Now analyst price target is based on fundamentals and not the technicals. Hence, a price target is not the right guide in momentum trading but is a good guide in long-term investing.

Coming back to AC's momentum, the stock found resistance when it slipped below \$24. At that point, the share was below its 100-day moving average is \$24.7, and the Relative Strength Index (RSI) showed that the stock is oversold (below 30). This was the right moment for momentum traders to execute their range-bound entry and exit strategy. Buy the dip of \$24 or lower and sell the rally of \$31 or higher.

Hence, if you study AC's stock patterns, its upcycle is short, as momentum traders execute their order when the stock hits its desired price.

Air Canada stock: Is all this risk worth it?

All this might look exciting, but I should warn you: momentum trading is a gamble. You should define your risk. If you decide to put \$100 in AC, be prepared to either make it \$130 or \$80 in a few months. If you made money in AC once by accident, don't be overconfident that you can't lose.

Never chase the momentum. If the stock is rallying, never chase the rally. Buying the dip can at least help you exit at a minimum loss or breakeven point. But if you chase the rally and end up buying the stock at the peak, you might not be able to exit without making a significant loss.

I can tell you the rules of the trade. But it is you who has to ask this question: Is all this worth the risk? There are some really good stocks that have fundamental growth potential that can double your money but in three to five years.

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