



9/11 Was 20 Years Ago: Lessons for Investors in Air Canada Stock

Description

Tomorrow is a very somber day in the airline industry. September 11, 2001, was the day we saw a terrible tragedy befall the United States. It was also a day that has been engrained in the minds of investors in the airlines sector forever. While **Air Canada** ([TSX:AC](#)) wasn't the same airline it was back then (Air Canada stock didn't even publicly trade in 2001), Canadian airlines weren't exempt from this madness.

What happened 20 years ago was certainly tragic. Indeed, looking at this event through the lens of investors, the events of 9/11 highlighted some key risks to the sector.

Let's dive into a couple lessons for investors in Air Canada stock right now.

Black swan events hit different sectors differently

Air Canada stock got absolutely hammered as a result of the pandemic. Any sort of disruption to the "day-to-day business" of the airlines sector is a bigger deal than for many businesses.

The pandemic reminds me a lot of 9/11 in terms of how sensitive airlines are to various macroeconomic shocks. Unlike other sectors that have found a way to work through the pandemic, airlines are capital-intensive businesses that require near-capacity operations to turn a profit. Thus, any sort of shock can be a bigger deal than what is seen in other sectors.

This higher level of risk to long-tail events is bearish for investors. Accordingly, airlines have traditionally traded at lower valuation multiples to reflect this risk.

Airlines bust, but they also boom

It really wasn't that long ago that Air Canada was in the throes of bankruptcy. Indeed, investors that have been in the market for more than a few years may remember the rather bleak picture that was being painted for airlines during previous times in history (including following the Great Recession).

In 2012, investors could pick up shares of Air Canada stock for well [less than \\$1 per share](#). Today, even though Air Canada stock is still more than 50% below its all-time high, investors who'd bought the dip roughly a decade ago have a [23-bagger](#).

Not bad.

These highly cyclical stocks are a higher-beta play on the overall market. Accordingly, riding a bull market with airlines is a great way to build wealth. However, the bust cycles can also be vicious and last for some time.

Bottom line on Air Canada stock

It's my view that Air Canada stock remains one of the best airlines for investors to consider. The government of Canada will always have Air Canada's back. And in Canada, there are really only two options for Canadians who want to travel.

Accordingly, investors bullish on the next up cycle in airlines may want to take a flyer on Air Canada stock — that is, for those truly optimistic we'll go back to normal sometime soon.

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