What Should Investors Do About Air Canada (TSX:AC) Stock?

**Description**

When it comes to a fight, it's not about how many hits you take, but how many hits you can get up from. That sounds motivational, but it's not a very pragmatic or practical way to look at a fight. That's because with each hit, the one that's being hit gets weakened, and each subsequent recovery might take longer because of the last hit.



The same principle, in its essence, can be translated for certain businesses as well. Let's take the airline industry as an example. The COVID started "beating" it up in 2020, and with each subsequent hit (a pandemic wave, travel restrictions, low demand, etc.), the industry suffered. And with less time between recoveries, the financial position and the ability to survive on operational income alone is becoming weaker.

That can be seen in the **Air Canada** (TSX:AC) stock in Canada. The premier airline had to survive by slashing its fleet to a bare minimum, introducing brutal workforce cuts, and diluting its market value even further. And even then, if the government hadn't stepped in, the airline would have been in a much worse shape.

## The new variant

The COVID is ready to deal another blow to Air Canada. The first case of the new variant (called "Omicron") has been identified in the country, and the stock has already started to stumble. It has fallen about 19% so far, and the downward movement continues. The 14-day RSI hasn't hit the oversold level yet, but it's heading in that direction.

The airline has also agreed to pay US$4.5 million for the refund issue in the United States. The amount itself is a pittance compared to what the company has lost since the pandemic, but it's still a blow at a time when the company can't take much more.

## Should you buy, sell, or hold?

If you'd bought the airline when it was trading below $20 per share, and you are worried that the company might go bankrupt (highly unlikely), then selling now might be smart. But if you bought into the business at a higher price, you may consider sticking to it for a while longer, hoping for a better price.

The decision to buy, however, is a bit trickier. The way the stock is sliding down, it's not too presumptuous to assume that it might go quite near or even below $15, especially if more new cases start to emerge. Even more disturbing would be a sharp rise in the death toll, since the new variant is said to be more dangerous (due to the various mutations it carries) and more transmittable, and people who've already caught the "original version" are more susceptible.

If the worst fears about the new variant are realized, then Air Canada stock is most likely to plummet. And in the worst-case scenario, it might even reach single digits. But what would determine whether or not you should buy it at such depths would be how the country responds to the virus.

## Foolish takeaway

If it's controlled and contained in a couple of months, and people start looking positively towards summer, Air Canada stock might start mending. But if the wave gains momentum in the next two or three months, Air Canada stock might not be the only "casualty." A full-blown market crash might be imminent.



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