



Air Canada (TSX:AC) Stock Dips 17% in a Month: What Should You Do?

Description

Air Canada ([TSX:AC](#)) stock is trading at dangerous levels, as its worst fears materialize. I have been optimistic about the rebound of the airline till now. It has been holding pretty well, despite the mounting debt and losses. It even turned net cash positive in the [third quarter](#), overturning its pandemic cash burns faster than expected.

Loses from Air Canada stock

But then came the fear of a new mutant virus Omicron that could be immune to the current vaccination. So far, the new variant hasn't proved deadly — only contagious. But the variant created uncertainty, pulling down Air Canada stock close to the support level of \$20. However, the stock did not breach the level, bringing some hope. If you'd purchased the stock above the \$26 price, you are over 16% in the red.

In my previous [article](#), I'd predicted a worst-case scenario, where fresh lockdowns could pull AC stock to \$18 or \$15. Border restrictions, COVID testing, and quarantine requirements are returning, even for the vaccinated individuals to control the spread of Omicron.

Are you facing a sunk cost dilemma with Air Canada's losses?

At this juncture, you stand at the crossroads. Your airline portfolio is deep in red, making you wonder if holding on to the stock is too much of an opportunity cost.

There is a concept of sunk cost dilemma. In this, investors are at crossroads. The money they invested is already lost, and the project is midway. Now, they have to decide whether to walk away from this loss-making venture, hold on to it, or add more money (buy the dip) and see the end of it. In either case, investors bear the cost. To decide on what to do, you first have to go back and check whether your original analysis on the stock still holds.

[Warren Buffett](#) sold all airline stocks in the March 2020 dip because he said, "The world has changed

for airlines.” This means his original analysis on airlines in the pre-pandemic world has changed.

How the world has changed for airlines after the pandemic

The pandemic-induced lockdown created an alternate digital world, where many business meetings started happening online, removing the need for business travel in some cases. Air Canada stock is already discounted for the loss of business travel. Till the time the pandemic clears out, airlines would see very high volatility not only in stock price but also cash flows. Some airlines may thrive, and some may perish in this crisis.

Now, Buffett bought airlines stock before the pandemic. He was right to sell them as his original analysis had changed, and the investment was nothing but a sunk cost that he can't recover for a decade. But if you'd bought AC stock in the post-pandemic world, your situation and original analysis are different from Buffett's.

Your expectation is recovery and pent-up travel demand. You expect the airlines to pull out from negative cash flow to positive cash flow. AC lived by your expectations till now, and the stock moved from \$15 to \$29 during the recovery. If this analysis holds, the stock could also reach \$35.

But the Omicron variant could slow this recovery, because if there is no pent-up demand, AC might have to dig into its \$14.4 billion liquidity. While this may save the airline from bankruptcy, it comes at a cost that AC will have to pay for years by taking a hit (interest expense) on its net profit.

What should you do?

You can wait till December end. If the stock surges to \$24, you can exit then. Otherwise, you can book a loss now and instead put your money in growth or resilient stocks that are growing. For instance, supply chain management specialist **Descartes Systems** can help you recoup a 20% loss.

CATEGORY

1. Coronavirus
2. Investing

TICKERS GLOBAL

1. TSX:AC (Air Canada)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Smart News
8. Yahoo CA

PP NOTIFY USER

1. kduncombe
2. pujatayal

Category

1. Coronavirus
2. Investing

Date

2025/08/18

Date Created

2021/12/13

Author

pujatayal

default watermark

default watermark