



Follow Warren Buffett's Advice: Sell Airline Stocks and Buy Canadian Banks

Description

In times of turbulent market conditions, as we have witnessed throughout most of the year, I find it helpful to turn to the wisdom of one of the world's greatest investors, Warren Buffett. The Oracle of Omaha has a reputation for taking advantage of [opportunistic market conditions](#).

Canadian investors have already experienced one market crash this year. The **S&P/TSX Composite Index** dropped nearly 40% in just over one month as the economy reacted to the spreading of a global pandemic.

In comparison to the great recession now more than a decade ago, the COVID-19 market crash was not as steep but did drop considerably faster. While the Canadian market lost close to 50% of its value by early 2009, the decline endured over a year and a half.

Since the great recession was long and drawn out, investors had much more time to digest the reality of the market conditions and make opportunistic investments. Earlier this year, the world was in a state of panic. Investors had much more to worry about than just their financial well-being. Safety was top of mind for many investors.

Which businesses are still on sale?

Even though the Canadian market has rallied an incredible 50% since the end of March, investors haven't missed their chance to grab shares of top **TSX** stocks at a discount.

The major Canadian banks and airlines, most notably **Air Canada** ([TSX:AC](#)), were among the hardest hit by the COVID-19 market crash. A dramatic decrease in interest rates put the major banks in rough shape, and the expected decline in air travel hurt Air Canada and many other travel-related companies.

Both Air Canada and the major banks had impressive performances in terms of share price growth in November. Positive vaccines news sent share prices soaring for many Canadian stocks.

Warren Buffett's advice on buying companies on sale

Buffett says "The best thing that happens to us is when a great company gets into temporary trouble...We want to buy them when they're on the operating table."

You could definitely argue that both Air Canada and the major Canadian banks are on the operating table right now. Both industries could continue to feel the effects of the COVID-19 pandemic in not only the short-term, but also the long term.

From a valuation perspective, Air Canada and the banks are an attractive buy today. But I'm not interested in buying both of them. Another Buffett quote is worth considering before investing in a beaten-down stock. "It's far better to buy a wonderful company at a fair price than a fair company at a wonderful price."

It may not be a popular opinion, but I'm [bearish on Air Canada](#) stock in both the short- and long-term. To be fair to Air Canada, it's the entire airline industry that I'm bearish on. There is too much uncertainty in the airlines for me in the coming years.

Even Warren Buffett sold off his shares of four major U.S. airlines earlier this year.

In Canadian banks we trust

Don't get me wrong, it's not going to be a quick recovery for the Canadian banks. Not many people are expecting interest rates to be back to pre-COVID-19 levels any time soon.

The main difference with the banks is that this trouble is temporary. Canadian banks will at some point be operating in a similar manner to how they were before this pandemic. In comparison to the airlines, there could very likely be a long list of lasting changes to air travel due to this pandemic, which may lead to a considerable amount of expenses that we are still unaware of.

Long-term investors have an opportunity today to pick up shares of any of the Big Five banks at a discount. They might not provide investors with market-beating growth, but they can provide a certain level of reliability for a portfolio. That reliability allows investors to take chances on higher-risk companies.

Not only that, the Canadian banks own some of the highest yields on the market today. All five of the major banks have yields above 4% right now, two of which are above 5%.

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