

Why Are Airlines Better Investments Than They Used to Be?

The old saying is that if you want to be a millionaire, start out as a billionaire and buy an airline! But, what happened? None other than Warren Buffett, who called airlines a death trap for investors, has poured \$10 billion into the four major airlines in the last couple of years. Why are airlines better investments than they used to be? *Business Insider* says that Buffett's investment is **everything you need to know about the airline industry**.

Over the past decade, the landscape of the airline industry in the US has changed greatly. All four airlines have reported record profits, over the past two years, buoyed post-financial crisis capacity discipline, depressed labor costs, and cheap oil.

There are also fewer competitors in the domestic market to contend with.

In the year 2000, the sky was filled with names such as America West, US Airways, TWA, AirTran, Continental, ATA, and Northwest Airlines. By 2016, all of these brands had disappeared by being merged into or acquired by the Big Four.

The remaining big four U.S. airlines are these.

- *American*
- *United*
- *Southwest*
- *Delta*

It should be noted that Buffett is investing roughly equal amounts in these four carriers. That would seem to be consistent with his stated philosophy of buying stocks for the long haul and only buying stocks when he has a clear idea of how the company makes money and will continue to do so for the foreseeable future. Airlines are better investments than they used to be because fuel costs are down along with other costs of doing business such as salaries. And the desperate game of underbidding to try to claw back passengers for rivals has pretty much gone away as the guys who were doing this have been absorbed into the remaining big four.

How Long Will the Good Times Last?

Is there still time for you to invest in US airline stocks or has the opportunity passed you by? *CNBC* notes that **aviation stocks are soaring** but investors should be careful.

Investors have reason to be bullish right now on air travel, but domestic commercial airlines' recent soar has some experts questioning whether there is still enough meat on the bone to get in now and still achieve above-average returns.

Several favorable market conditions continue to make airlines a good value stock: low fuel prices, low seat capacity and consolidation.

"It already had a great run, so there is always a question of 'How much is left?'" said Jerry Braakman, chief investment officer for First American Trust, which oversees \$1.1 billion in assets. The company bought stake in Delta for \$10.41 a share in 2012. Last year it sold the last of its Delta stock for about \$40 per share, believing the recovering airline had hit its peak. It is now trading at around \$48.

Interestingly these folks looked at Delta and others as short term investments. They bought for the recovery and sold but it turns out that they sold too soon. Airlines will continue to be better investments than they used to be so long as the market remains only moderately competitive and so long as fuel and labor costs stay down. But if Trump economics really do end up stimulating the economy prices could go up across the board which could hurt the air carriers.

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