

Times have changed but wise decision-making has not

In these times of turmoil you still need common sense and an understanding of aviation to make proper investment decisions, writes Adam Pilarski, senior vice-president at Avitas.

With everything changing dramatically and the world in a topsy-turvy situation it could be asked whether old paradigms are still relevant. Can the future be predicted at all or is the whole world totally haphazard and random?

So, an old quandary is where to invest in aviation?

Of all the humans who ever lived probably the most successful investor is the “Oracle of Omaha”, Warren Buffett. He is reportedly worth about \$80 billion and is among the richest people on our planet. And he did it all by pure investing, not creating new products or discovering a better way to live our lives.

Historically, wealth came from developing a new product that changes human welfare, such as Microsoft or Amazon (the sources of wealth of the two richest people on earth). Buffett, though, achieved his fortune by simply investing in other people’s creations – hence, he can probably claim the title of best investor in history.

Of course, anybody as successful as Buffett has to have an occasional slip. Aviation provided him an opportunity when he bought US Air stock in 1989 for \$358 million when the share price was about \$50, only for it to drop to just \$4 a few years later. Buffett kept the shares until he eventually recovered his investment and his pride but then got rid of them without his usual huge gains. That process, though, turned him bitter towards aviation.

He then made two famous statements about the aviation industry, badmouthing both the Wright brothers – Orville and Wilbur – in the process. One was: “Karl Marx couldn’t have done as much damage to capitalists as Orville did.” The other: “If there had been a capitalist down there [at Kitty Hawk, where their first successful flight took place], the guy should have shot down Wilbur!” If humanity followed the advice of Buffett we might never have experienced aviation and all the goodness it created for our civilisation.

One miscalculation is not so bad and does not tarnish the reputation of Buffett



Our author at the *Airfinance Journal* Dublin 2020 conference.

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as an investor extraordinaire. However, the specific example I mentioned above could have turned out differently if he had asked my advice. I was predicting a bubble bursting in aviation at that time. There were simply too many aircraft in service and on order for the existing market. The simple explanation for this was that airlines could see a promising future in aviation but, at the same time, leasing companies started growing rapidly, raising their share of capacity from a couple of percent in

the early 1970s to almost 20% by the end of the 1980s. The gross overbooking was the result of double counting the need for aircraft by airlines and lessors.

The slowdown coming as a result of a world recession and the first Gulf War came at the worst time so airlines and lessors were hit very hard, with a number of prominent historical names disappearing forever. All this was quite predictable and I was preaching that outcome at the time.

Fast forward a few decades and, as readers of this column know, I have again been preaching the existence of an ever-growing bubble in aviation, saying we simply have too many aircraft for the market. I kept repeating the mantra about a forthcoming bubble so frequently that many aviation professionals started calling me the “Bubble Boy”. A recent article in Chinese papers upgraded me to the “Bubble Prince” a la The Little Prince. Imagine my surprise when I read in 2016 that despite all his venom towards the industry from times past, Buffett had just returned to aviation investments. This time it was not just one airline but a substantial (10%) investment in each of the major carriers in the USA, showing his trust in the industry.

As before, the Oracle of Omaha did not seek out my advice before committing the funds for investments. And as before, the outcome was not positive but this time Buffett cut his losses and got rid of his airline stock entirely this year.

The Coronavirus outbreak could not have been predicted but is not the main reason for the loss. The industry had been ready for a predicted and predictable dramatic downturn for some time. Nobody should have been surprised by the Oracle’s eventual losses in his second foray into airline stock investment. Unfortunately, this time he did not provide some humorous quotes saying how bad aviation really is in its core. Again, this does not negate the fact that Buffett is the greatest investor of all time. But it proves that reason explains developments in our industry. ▲