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October 15, 2014 - Investors Should Take A Flight With Southwest Airlines - By Jeffrey Hagenmeier



There are a number of reasons that one should invest in Southwest Airlines at this time. All airlines stocks took a hit this past week, with the public fear of contracting the Ebola virus while traveling. This had shares at Southwest plunge to \$28.88 USD (United States Dollar) on Monday. For Southwest it is a bit overblown, considering the only international flights the company operates are to the Caribbean and Mexico. Most of the business for Southwest is domestic flights in any case. Some analysts are concerned about the wait time and concern for the new costs incurred by the new screening procedures for international travelers. However, those additional expenses will be picked up by the federal government at least for now.

It is true that some Americans may avoid international travel especially to certain areas of Africa, but one can be confident that domestic air travel will increase. I am confident of this for two reasons. One is that the normal holiday season is rapidly approaching, which will mean a large number of potential passengers will be making reservations soon. The second reason is with oil prices rapidly declining, airline tickets will be available for lower prices as jet fuel costs come down.



Low cost fares began to be advertised for under \$100.00 Tuesday. These are round-trip tickets for shorter distances. This particular sale is only until October 16th for travel in early December and for early January but more promotions can be expected in the future.



A new opportunity for Southwest has arrived with the repeal of the Wright Amendment. This law has limited profits for Southwest since the 1980s. This legislation limited the routes of the airline. It was done through restricting nonstop service from Love Field where the company is headquartered, to other airports in Texas and 8 other states. The law will be repealed in mid-October and air traffic at Love Field in Dallas is projected to increase by as much as 50%. Southwest will be in a prime position to benefit from this state of affairs.

Southwest Airlines was founded in 1967 and commenced operations in 1971. It is the world's largest low cost carrier. As of December 2013, the airline had close to 45 thousand employees. The company conducts more than 3,400 flights daily. Since 2011 Southwest has carried more domestic passengers than any other United States carrier.



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As of this month, Southwest has scheduled service to 91 destinations. They provide passenger air routes for 41 cities, the territory of Puerto Rico, and abroad with 617 aircraft.



Southwest Airlines acquired Air Tran Airways in 2011. The integration of the two carriers is set to be completed by the end of this year.

As of 2013, revenue for the company had reached \$17.69 billion USD. Operating income stood at \$1.278 billion USD. Net income for the company was \$754 million USD in 2013. Total assets for Southwest stand at \$19.34 billion USD and total equity is estimated to be \$7.33 billion USD.

Along with Aruba, the Bahamas, Jamaica and Mexico the company plans to expand flights into Costa Rica and the Dominican Republic.



By November, the company expects to be offering more than 30 daily flights to 8 overseas destinations. Domestically, the plan is to increase daily flights by an additional 200 bringing the total to 3,600, servicing a total of 90 American airports. The company has already identified 50 new destinations

that can be added to its portfolio.

The **stock for Southwest Airlines** closed **Tuesday** at exactly **\$30.00 USD**. This was an increase of **\$1.12** for the day, which is a **3.88% increase**. The stock had opened at \$29.37 with a low of \$28.77 and a high of \$31.25. At present, market capitalization is \$20.55 billion USD. The P/E ratio is 19.31 and the dividend yield stands at \$0.24 or 0.80%. EPS was 1.55. The next time the share price drops below **\$29.00 USD, that would be the opportunity to purchase stock** in the company.

On September 18th the stock had reached a high of \$35.23 and has been slowly declining since reaching the low on Monday. The 52 week range for the stock was from a low of \$15.20 to a high of \$35.49. Volume for Tuesday was 16,870,306 shares. Average volume for the stock over the last 3 months has been 6.8 million.



Southwest Airlines will report third quarter earnings on October 23rd before the market opens. Analysts have been increasing their estimates for growth as the date nears. The present expectation is for the company to show a quarterly profit of \$0.51 a share, up from \$0.44 per share just 3 months ago. In the past 4 business quarters the company has beaten expectations by an average of 13%. Each time the stock increased by at least 10% within 6 weeks.



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It is realistic for an investor to set a target for **\$34.00 USD** at this point, which is still under by more than a dollar from the 52 week high for the stock. If one feels they are willing to wait a bit longer for better results, set your target at **\$35.00 USD**. This will still be under the 52 week high for the stock.