

Southwest Airlines: Showing Passengers Some Luv

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U.S. travelers may be opting to explore entertainment options closer to home these days, but many individuals I encounter who are heading to more distant destinations are choosing to fly Southwest Airlines (NYSE:LUV). Here we'll take a look at a couple of Southwest's strengths in comparison to its aerial competition, and examine why travelers seem to have so much "luv" for this airline. (For background reading on how to evaluate airline stocks, see [Is That Airline Ready For Lift-Off?](#))

Dollars for Baggage

Road warriors have mastered the ability to condense their belongings into constantly shrinking carry-on baggage, but the vast majority of air passengers travel heavy. Southwest has remained committed to not charging its air passengers for their first and second bags, while the average fees charged by competitors like US Airways (NYSE:LCC), American Airlines (NYSE:AMR) and Continental Airlines (NYSE:CAL) are \$15 for the first bag and \$25 for the second. Low-cost air travel provider JetBlue (Nasdaq:JBLU) falls in the middle by allowing its passengers to check their first bags for free. (For more, see the [Industry Handbook](#).)

Creative Attraction

JetBlue is also gaining customer attention with promotions like offering to refund the fare for a JetBlue Getaways Vacation Package if the traveler loses his or her job through to the end of 2009. Southwest is keeping pace, having just coming off of a one-way \$30, \$60 and \$90 travel sale based on length of travel. Southwest is also staying focused on delivering a positive passenger experience with its "cashless cabin" on-board service.

Fuel Cost Savings

Southwest's fuel-hedging program allows the company to lock in prices for jet fuel. For example, for most of 2008, Southwest had just over 70% of its jet fuel needs protected near \$51. During the year, jet fuel prices were volatile and at times ranged between \$90 per barrel and \$150 per barrel. Southwest believes its fuel-hedging program resulted in \$1.3 billion in cash settlement gains in 2008. (For more insight, read [Corporate Use Of Derivatives For Hedging](#).)

Reasons to follow

The air travel industry has no doubt been affected by the economic downturn, but Southwest's commitment to above-average customer service - while still providing low-cost travel with its active fuel-cost hedging practices - make this company a player to follow during the downturn and into the eventual recovery. Southwest Air's stock is down nearly 25% since the beginning of the year, making it an ideal time for investors to do their own homework.

Final Thoughts

If you know someone who is planning air travel in the near future ask them which airline they are choosing and why. The responses I've received have frequently been Southwest, mostly because of its low fares and its ability to take people where they want to go. When choosing an investment for your portfolio, what could be better than aligning yourself with a company that at its root is giving people what they want. Happy flying - and even happier investing.