



What's Next for Aphria Inc. After a 454% Return?

Description

Over the past year, shares of **Aphria Inc.** (TSXV:APH) have risen 454%. As of the close this past Friday, shares rested at \$6.60 and traded at a trailing price to earnings (P/E) ratio of 165 times. Investors currently entering the security obviously have high expectations for the company's growth prospects. As a reminder, the Liberal government of Canada has announced the intention to legalize marijuana, sending the share prices of medical marijuana producers into the stratosphere.

As is often the case with something new and exciting, simple comments made by the government sent shares down in excess of 5% in just one day last week. It seems almost any news will sway investors in this type of security. Given the excitement of the marijuana industry in Canada, it is completely normal to see incredible euphoria and drastic corrections occur on a regular basis. Given the high expectations priced in to the security at this time, it may be difficult to see the returns of 454% repeat themselves.

Let's look at the technical indicators for this security. The market has clearly taken off over the past year, leading to what could now be a slowdown. Given the recent emergence of the marijuana industry, the fundamental indicators or track record for this type of company are difficult to anticipate. Investors have to look at the future growth potential of the companies and project where they may be in five to 10 years or even further down the road.

To benchmark the security to itself, the demand for shares far outweighed the supply over the past year as the simple moving average (SMA) have lagged the stock's upward rise consistently. Once the stock price moves up, the 10-day SMA needs at least 10 days of sideways trading to catch up. The 50-day SMA needs 50 days of sideways trading, while the 200-day SMA needs 200 days. Obviously, looking at a chart which shows a 10-day SMA above the 50-day SMA is a good sign. The 50-day SMA above the 200-day SMA is also a good sign.

If we look at Aphria's chart, the share price has been on a tear over the past year with the 10-day SMA remaining on top of the 50-day SMA throughout the year, which, in turn, has remained over the 200-day SMA. Currently, the 200-day SMA is approaching \$4 per share, while the 50-day SMA is approaching \$6 per share. At a price of \$6.60 per share, it would seem the moving averages have a

ways to catch up.

In explosive-growth situations, much too often, investors who are late to the party have to clean up the mess. For investors who arrived early and had a good time over the past year — that's fantastic!

For those looking to add a position in this industry, the next large swing may or may not be upwards. It's always best to be cautious with something new.

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Date

2025/08/25

Date Created

2017/03/14

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