



Marijuana Companies May Be Almost Worthless

Description

Retail investors are presently very excited about a number of things having to do with the marijuana industry. While the legalization of the substance could drastically increase the client base and revenues for companies in the production process, this may not be the case. Currently, the major players in the industry are **Canopy Growth Corp.** ([TSX:WEED](#)), **Aphria Inc.** (TSX:APH), and **Aurora Cannabis Inc.** (TSXV:ACB).

While investors have seen their investments increase in value quite significantly, the share prices may be completely over hyped. While a number of articles have been written about the industry's potential, it is important to note that certain growing pains have not yet been worked out. Taking Canopy as an example, the company is still cash flow negative while reporting profits due to a re-valuation of the inventory.

In order for each company to bring on a new client, money must be spent to acquire them. This is the cost of customer acquisition, which, over time, increases as the next marginal client is harder and harder to acquire. To make matters worse, competition will increase over time.

Eventually, the government will realize there are revenues to be had through the issuing of permits to grow marijuana on a large scale. More competition will enter the market.

When evaluating the effect of the "mom and pop" producers, we realize the industry may be in trouble. The rumour regarding the upcoming legalization of marijuana is that the bill would include an allowance for each adult (or household) to be able to grow enough marijuana for personal use. While this will do the trick for a number of people, the ability to grow one's own "stash" will take money away from the commercial marijuana producers.

Most people living in the city have done nothing more than grow cherry tomatoes on the balconies of their condos, so investors may want to ponder how difficult it would be to grow marijuana. The slang term for the substance is *weed*. Apparently, it can grow almost anywhere with a minimal amount of sunshine (or light) and water. Getting back to the cherry tomatoes, there is very little difference between the cherry tomatoes grown by my neighbors on the right and the ones grown by my neighbors

on the left. So, why would there be any differentiation in the weed people could grow?

Investors expecting an explosion in demand for marijuana may just be disappointed with what follows over the long term.

Investors looking for growth stocks or growth industries have been starved for ideas. The truth may be that overzealous investors ran into Canada's marijuana stocks in the hopes that the industry will become known as the marijuana industry instead of the medical marijuana industry.

CATEGORY

1. Investing

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1. Editor's Choice

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1. TSX:ACB (Aurora Cannabis)
2. TSX:WEED (Canopy Growth)

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