



When Will Canadian Cannabis Stocks Rebound?

Description

A question many investors or potential investors in Canadian cannabis companies have is, How long with this slide continue?

In short, it is hard to call the bottom on this decline as, in my opinion, what we are seeing right now is a relatively soft landing for a valuation bubble that has burst. Since November of last year, when valuations skyrocketed (with the likes of **Canopy Growth Corp.** ([TSX:WEED](#)) achieving a market capitalization of more than \$2 billion), investors have watched as valuations in the cannabis industry have (finally) started to come back down to earth.

The industry-wide decline may be indicative of the unreasonable industry growth expectations and valuations built on these expectations, as well as grossly over-inflated expectations of a potential market size which many experts do not believe to be feasible.

Or the decline may be due to political uncertainty, lowered growth expectations for exports, or indications that regulation and taxation on Canadian cannabis companies will eventually eat up too much of the potential profitability of the industry.

Perhaps the decline is due to the evolving competitive fundamentals of the marijuana industry, one which has become incredibly competitive and consolidated, even though the commodity has not yet been officially legalized.

Whatever the case may be, the reality for investors looking at the marijuana industry as a whole is that the market now appears to be finding an equilibrium with the smart money standing up and voicing an opinion — one which appears to be bearish.

Bearish analyst outlooks on the marijuana industry have been propagating of late. Chris Damas of BCMI Research was one of the first to [publicly denounce](#) the bullish sentiment last year, inviting investors to take a look at the data with respect to the total expected Canadian cannabis market with a critical lens. Mr. Damas's research points out that current estimates for the supply and demand of marijuana in post-legalization Canada have suggested that a supply glut is likely to impact the profit margins of Canadian producers, at least initially.

With the first ever publicly traded exchange traded fund (ETF) now on the TSX trading as **Horizons Medical Marijuana Life Sciences ETF** ([TSX:HMMJ](#)) seeing a 17% drop since its IPO in April, despite a huge amount of interest initially, those investors who chose to buy into the bullish short-term momentum-related sentiment which drove the Canadian marijuana sector to ever-increasing highs are now feeling the pain of the market correcting the over-valuations.

Stay Foolish, my friends.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:HMMJ (Horizons Marijuana Life Sciences Index ETF)
2. TSX:WEED (Canopy Growth)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Yahoo CA

Category

1. Investing

Date

2025/08/03

Date Created

2017/06/09

Author

chrismacdonald

default watermark