

# Are Marijuana Stocks Growing Too Fast?

## Description

Marijuana is expected to be legalized next summer, but investors have not been waiting to buy shares of cannabis companies. For all the uncertainty that exists in the industry, you wouldn't be able to tell by looking at how well shares have been performing. **MedReleaf Corp.** (TSX:LEAF) was listed in June of this year, and the stock has increased nearly 50% since then, while **Canopy Growth Corp.** ([TSX:WEED](#)) has seen its share price rise over 60% in just the last three months.

With all the growth these stocks have seen amid all this uncertainty, investors should be asking one important question:

### Is there any potential left to make a profit?

The one danger with such a rapid increase in stock price is that there may not be much potential for investors that buy today to make a profit. It may be absurd to pose such a question, since people expect marijuana usage to take off, and for demand to skyrocket, which would benefit all companies in the industry. However, there are still many variables that are unaccounted for which could have a significant impact on a company's profitability and long-term prospects.

We've seen some provinces introduce their proposed legislation for cannabis, and one concern is the potentially restrictive rules that could inhibit growth. In Ontario, government-run shops will be the only places where consumers can buy marijuana, and it will be difficult to advertise to users.

### Questions remain about which companies will supply pot to provinces

New Brunswick has been the only province so far to announce supply deals with vendors, one of which being Canopy Growth Corp. If a province were to designate just a select few companies to buy cannabis from, that could limit the potential of other producers to be able to grow sales. Investors may be thinking that by investing with a big company like Canopy Growth Corp., their odds are better for success, since it's less likely that a big producer like that will get squeezed out of the picture. However, another potential concern is that competition can look very different when legalization takes place.

### Will bigger companies take over the industry?

Tobacco companies and pharmaceutical companies are believed to be watching the growing cannabis industry and could be waiting to jump in when the time is right. Once regulations are ironed out, we might see some bigger players get involved in the industry, as a more complete picture with all the risks and opportunities becomes evident.

### What this means for investors

Investors should always be careful buying into hype and expectations, especially in a new industry that has so much uncertainty around it. The biggest variables surround legislation and competition, and until we get a clearer picture of how those two things will play out, it will be difficult to assess a

company's long-term potential. Certainly, in the short term, stocks such as Canopy Growth Corp. and MedReleaf provide lots of potential, but with all the changes that might take place in the industry, investors should be careful not to just buy and forget.

## CATEGORY

1. Investing

## TICKERS GLOBAL

1. TSX:WEED (Canopy Growth)

## PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

## Category

1. Investing

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