

Interested in Investing in Pot Stocks? Here's What You Need to Know

Description

Marijuana stocks have been some of the top-performing investments on the TSX in the past year, and if you're interested in jumping on the bandwagon, there are a few things that you should know before investing in pot.

The big four

There are many cannabis stocks out there, and as we get closer to legalization, which is expected sometime this summer, we'll likely see even more new listings.

Canopy Growth Corp. ([TSX:WEED](#)) is the big dog on the TSX with a market cap of \$6.5 billion. **Aurora Cannabis Inc.** ([TSX:ACB](#)) is a close second with a market cap of ~\$6 billion, thanks in large part to the incredible growth the stock has seen. Since being listed in July of last year with a price of less than \$3, Aurora's share price has exploded to over \$13.

Aphria Inc. (TSX:APH) has focused on low costs, and it too has seen its share price triple, as has **MedReleaf Corp.** (TSX:LEAF).

If you're looking at investing in cannabis, these are the four stocks you'll want to keep a close eye on.

Don't expect profits just yet

Most pot stocks aren't profitable, and it's likely to stay that way for a while. For that reason, a lot of the momentum behind these rising prices has come from announcements, acquisition attempts, or supply deals, like the one that Canopy [recently secured with the province of Newfoundland and Labrador](#).

Aphria and MedReleaf also secured deals to sell pot online through Shoppers Drug Mart, which is owned by retail giant **Loblaw Companies Ltd.**

Inconsistent rules from one province to the next

The federal government in Canada has left it up to the individual provinces to sort out how pot will be sold and distributed.

Ontario, for example, will adopt a very restrictive government model that will shut down pot shops and only allow buyers to purchase marijuana from government stores. However, provinces like B.C. and Manitoba have been more receptive to private stores selling cannabis.

U.S. expansion may not happen soon, or even at all

Expansion south of the border may be exciting, but investors shouldn't expect it anytime soon.

[Aphria recently got into trouble with the TSX](#) for not being in compliance with U.S. laws, since

marijuana is still illegal at the federal level, regardless of whether individual states allow it or not.

Valuations are sky high

All of the big four pot stocks have at least tripled in value in the past year, and the amount of upside left might be limited. However, each time I say that, the share prices continue to find ways to climb.

Although we can't use the price-to-earnings (P/E) ratio to evaluate stocks that don't yet have profits, what we can do is look at price to sales (P/S). Of the big four pot stocks, MedReleaf's P/S multiple of over 60 is the lowest in the group, while the other three are over 100, with Aurora trading at more than 250 times its revenue.

To put this into context, consider that **Amazon.com, Inc.** ([NASDAQ:AMZN](#)), which is valued at an astronomical 300 times its earnings, trades at less than four times its sales. **Tesla Inc.** ([NASDAQ:TSLA](#)), which might be a more adequate comparison since the company is still in the red, trades at less than five times its sales.

Excitement may be high for pot stocks, but so are valuations. In the short term, investors can certainly still make some profits, but don't be surprised to see some corrections happen as early as this year.

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3. TSX:ACB (Aurora Cannabis)
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