



## Why Cannabis Investors Shouldn't Expect Significant Growth

### Description

Pot stocks have been soaring the past year, with much of this growth based on the expectation that marijuana sales will soar once legalization occurs. The problem is that investors are taking it as a given that growth will be significant, but there are several reasons why the industry could fall short of expectations.

That's not to say that there won't be growth. There almost certainly will be, but it won't be at the level needed in order to make stocks like **Canopy Growth Corp.** ([TSX:WEED](#)) and **Aurora Cannabis Inc.** ([TSX:ACB](#)) good buys today. Most pot stocks don't make a profit and [trade significantly higher than their sales](#).

Take, for example, Aurora's stock, which has skyrocketed by nearly 400% since being listed on the TSX back in July. The market cap of the company is a little more than \$6 billion, which is nearly 260 times the \$23 million in sales Aurora generated during the past 12 months. It's not likely that this high of a multiple can be sustained over the long term, which is why growth in the industry will have to be exceptional.

### Has the black market for cannabis actually decreased?

It's difficult to estimate the size of a black market given that there's no tax reporting or other method of getting reliable figures. However, Statistics Canada estimated that Canadians spent \$5.7 billion on pot last year, with 90% for non-medicinal purposes.

Investors may scoff at the number because it may as well be a shot in the dark, but what got my attention is that when Statistics Canada estimated the market's size in 2015, [it estimated that it was worth \\$6.2 billion](#), which would mean that it's actually decreased if the methodology and assumptions remained consistent.

This doesn't mean that growth won't happen in the industry, but what it does suggest is that despite the growing hype around legalization, it's not generating as much momentum and spending as investors have been hoping for. There are at least a couple of big reasons why investors shouldn't expect the pot market to take off when legalization occurs.

### **Users may choose not to buy from governments or corporations**

What I do know about the pot culture is that it is anti-corporate, and it's a big assumption for investors assume that a legal pot industry will have all the black market's sales plus growth from new users. Taxes and restrictions around how pot can be purchased will lead to more than a few buyers staying with the black market.

### **Legality of pot has not been a large obstacle for users**

The fact that Canadians spent an estimated \$5.7 billion on pot last year should suggest that the legality of cannabis isn't a big factor for many users in deciding whether to smoke pot. While sheer curiosity could certainly entice some new users to try smoking cannabis, I've yet to meet someone who wanted to smoke pot but didn't because it was illegal.

### **CATEGORY**

1. Investing

### **TICKERS GLOBAL**

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

### **PARTNER-FEEDS**

1. Msn
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### **Category**

1. Investing

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