



Marijuana Stocks: Is the Time Right to Short Top Cannabis Players?

Description

After a roaring start to 2018, Canada's top three marijuana stocks have seemingly lost their momentum. All three big names — [Canopy Growth Corp. \(TSX:WEED\)](#), **Aphria Inc.** (TSXV:APH), and **Aurora Cannabis Inc.** ([TSX:ACB](#)) — have shed their gains of the past four weeks at the time of writing.

Is this performance an indication of what's going to happen in 2018 or a mere breather after the triple-digit gains witnessed over the past six months?

I'm in the camp of those who think that marijuana stocks are in an extremely overbought territory — and that pot stocks are ripe for a big correction.

A recent flurry of deals and consolidation in the sector indicates that smaller players are sensing the danger ahead and want to get the maximum value of their assets before things get ugly.

In a matter of just one week, we have seen Aurora Cannabis finalizing a \$1.2-billion deal with **CanniMed Therapeutics Inc.** (TSX:CMED), after a failed hostile takeover bid.

On Jan. 29, Aphria agreed to buy **Nuuvera Inc.**, a global cannabis company based in Brampton, Ontario, for about \$826 million in cash and stock. The offer of about \$8.50 per share is 21% higher than Nuuvera's closing price on January 26. This is a big gain for Nuuvera, which went public just four weeks ago.

This consolidation is a good sign in this nascent industry, where no one really knows the size of the market after Canada legalizes the recreational use of pot this summer. I think the time is right for aggressive investors to stop and analyze the risks going forward.

Anthony Bozza, who runs a multi-billion dollar hedge fund for Lakewood Capital Management in the U.S., highlighted these risks in a recent interview with CNBC.

Bozza estimates that Canopy Growth's production capacity can be recreated for less than \$150 million and Aurora's for \$100 million, which makes it hard to justify Canopy's \$6.6 billion market cap and

Aurora's cap of \$6.2 billion.

"Simply, we believe it is not a matter of if, but when these stock prices collapse... otherwise we should all be moving to Canada and growing pot," said Bozza, who is shorting both Canopy and Aurora.

Marijuana stocks: What lies ahead?

Before making an investment decision, investors should carefully analyze the risks of investing in pot stocks. Although there are a plenty of arguments that justify the extremely rich valuations of marijuana stocks, investors should not forget [the possibility of a downside](#).

If you plan to enter the market in 2018, you should keep in mind that you will be buying marijuana stocks at a time when there may not be much upside left after such an incredible rally in 2017.

As I mentioned in my earlier articles, the top three cannabis stocks have become extremely sensitive to negative news, and investors should expect a lot of volatility as we approach the summer deadline for opening the recreational cannabis market in Canada.

I don't think a short-term trading approach will work in your favour at this stage of the game. If you're dying to invest in these stocks, then a long-term approach is probably the way to go. Personally, I would wait on the sidelines and see how things play out over the next six months.

CATEGORY

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TICKERS GLOBAL

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

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