When Will it Be Safe to Get Back Into Cannabis Stocks?

Description

All cannabis stocks are violently correcting following December's parabolic surge. This industry-wide correction shouldn't be a surprise. The run-up had all the telltale signs of a bubble. Unfortunately, for many, the FOMO (fear of missing out) mentality was tough not to act on, especially for those with friends who'd bragged about doubling up in a short time span.

The astronomical upward run of cannabis stocks was sudden, but so too was the correction, which I — and many fellow Fools — had warned investors about over the past few months. Sure, the emerging cannabis market is a real opportunity which may result in triple-digit percentage year-over-year growth numbers, but many investors have grown overly euphoric over the short term, resulting in bubble formations which, sadly, will end up destroying the wealth of investors who'd acted based on the FOMO.

I still think cannabis stocks present a real long-term opportunity for investors, but at these levels, there's way too much uncertainty to be paying whatever price the market currently commands. Although it's nearly impossible to forecast the growth numbers for pot stocks, it is possible to get a gauge of which firms are better positioned to best thrive over the medium to long term based on the practices conducted by each firm's respective management teams and the actions they've taken.

Aurora Cannabis Inc. (TSX:ACB) and **Aphria Inc.** (TSX:APH) are two firms whose management teams, I believe, were guilty of succumbing to the FOMO mentality. Both firms made ridiculously expensive acquisitions at a time when the cannabis bubble was near its peak. Aurora's $1.1 billion acquisition of **CanniMed Therapeutics Inc.** (TSX:CMED) was after a lengthy uphill chase, which management should have walked away from, as the price they would have paid would have been far less if they'd have taken the opportunity to consider the longer-term picture.

It's clear that investors didn't appreciate being severely diluted from the deal, which I'd noted was a move that would destroy shareholder value, as shares plunged following the announcement of the deal.

Is it safe to buy the dip?

Not yet. I still think cannabis stocks stand to lose more of their value over the next few weeks, especially Aurora and Aphria — both of which should be punished more because of their hasty M&A activities over the past month. If you're planning to buy the dip, I'd recommend **Canopy Growth Corp.** (TSX:WEED), as it's got a sound long-term plan, but make sure you only buy very small incremental amounts on the way down, because I think it's way too early to be backing up the truck.

Bottom line

It's not safe to be a buyer at current levels. Canopy's $20 level of support will be tested in the weeks ahead, and it's quite possible that we could see shares fall back to the single digits, as all the speculators are weeded out of the stock. Once the dust settles, I'd recommend nipping away at shares, but be patient because the sell-off could drag all the way into the spring months.

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Author
joefrenette