

## Cannabis Investors: Put These 2 Stocks in Your Pipe and Smoke Them

### Description

With consolidation continuing to pick up in the Canadian cannabis sector, investors who have bought into any of the top marijuana producers in the country have been well rewarded in recent years, as smaller companies continue to get gobbled up by larger players such as **Canopy Growth Corp.** ([TSX:WEED](#)), **Aphria Inc.** (TSX:APH), and **Aurora Cannabis Inc.** ([TSX:ACB](#)), who have been on a buying frenzy.

Fundamentally, the fact that these companies have chosen to consolidate the production of marijuana has played into investor enthusiasm within this sector.

Acquisitions continue to roll in at higher premiums, reflecting the increasing valuations that investors are placing on producers across the board (some have increased higher than others, but on average, by most fundamental valuation metrics, cannabis producers have experienced some of the highest valuation multiples ever in recent months). Buying a stake in one of Canada's top five cannabis producers by market capitalization will likely reflect some level of expectation with respect to acquisition growth and production capacity growth via the fact that Canada's largest producers continue to gobble up the little guys.

As an investor sitting on the sidelines and considering investing some cash in the cannabis sector, by looking at smaller producers such as **CanniMed Therapeutics Inc.** (TSX:CMED), we can see that valuation increases have outpaced larger producers significantly since the beginning of the year due in part to the valuation bump they have received as a premium for agreeing to be acquired.

For investors looking at ascribing a small percentage of their portfolios into speculative stocks, creating a "mad money" mini-portfolio (I suggest readers take a look at a recent [article](#) from fellow Fool contributor Joey Frenette on how to do this), focusing on the smaller producers in this space may be a better strategy than buying into many of the larger firms, which have experienced short-term declines in valuations following acquisition announcements due in part to the premiums they need to pay to continue acquiring.

There are two smaller producers that can potentially provide a better speculative bump to investors' portfolios in this current environment: **Cronos Group Inc.** (TSXV:MJN) is a significant producer in Canada's medical marijuana space which is currently traded on the venture exchange; and **Emerald Health Therapeutics, Inc.** (TSXV:EMH) currently trades on the over-the-counter market and provides dry cannabis and cannabis oils for the medical marijuana sector.

### Bottom line

These two firms may indeed be takeout targets following the recent highly publicized acquisitions we have all read about in the news of late; that being said, buying any company on suspicions that an acquisition may be coming down the road can be a very dangerous exercise, as evidenced by the recent events surrounding the [cancellation of acquisition](#) talks of **Newstrike Resources Ltd.**

(TSXV:HIP) by CanniMed, as CanniMed instead got bought out by Aurora earlier this year.

At this point in time, it is my opinion that buying any pot stock invariably requires a significant amount of speculation. For long-term investors looking to preserve capital and grow a portfolio with minimal risk, these securities are likely not the ones to consider. For an investor looking for a small amount of exposure, however, I suggest taking a look at the little guys.

Stay Foolish, my friends.

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1. Editor's Choice

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