



Are Marijuana Stocks on Their Way Up Again?

Description

The TSX has been on a rough ride lately amid concerns that pot stocks would be hit the hardest as we witnessed when **Aurora Cannabis Inc.** ([TSX:ACB](#)) and other cannabis companies experienced significant declines in the past few weeks.

However, we've recently seen a bit of a recovery from the marijuana industry, with many stocks rising again even though the TSX has [failed to turn things around](#).

Was the sell-off overdone?

Despite the big drop in price, none of the big pot stocks fell into oversold territory. The Relative Strength Index (RSI), which measures excessive buying and selling, saw Aurora and **Aphria Inc.** (TSX:APH) reach the 30s, but not dip below. When the RSI falls below 30, it indicates that a stock has been oversold and that it could be due for a reversal.

Pot stocks are very volatile; although for the most part we've seen the share prices take off. And corrections and dips are bound to happen when you're seeing such a meteoric rise in price.

The bubble hasn't burst just yet

While I firmly believe that [there is a bubble forming](#) in the cannabis industry, I don't expect it to burst anytime soon. Valuations are out of control as investors are paying big premiums for optimism amid the expectation that demand will skyrocket once legalization takes place.

But until legalization happens, reality won't set in; the further we are from reality, the more the bubble will continue to grow. This recent recovery in pot prices confirms that the sell-off in marijuana stocks was not going to last long and that the sector will likely climb higher.

The cannabis industry is very sensitive and reactive to news, as there is a healthy dose of speculation involved in the share prices. As long as we don't see anything derailing the hype around legalization, stocks are going to continue to rise.

The one big risk for pot stocks is any delay in the legalization date or any negative developments that could harm the industry's prospects for growth.

Although the market decline could very well continue, investors shouldn't interpret any related sell-off of pot stocks as an indication that the bubble is bursting.

As long as the hype continues, prices will rise

The big danger for pot stocks is that growth won't materialize or won't be as strong as expected, and we won't know that until after marijuana is legalized and we start seeing just how strong sales are.

Currently, there aren't any big expectations of sales or profitability for cannabis companies, but that will change once marijuana is legalized and there are no longer any more excuses as to why investors need to remain patient in order to see results.

When that happens, I expect we'll see a much bigger crash take place. Pot stocks have risen astronomically, and will only continue to do so, which will make it nearly impossible for actual growth to meet expectations.

CATEGORY

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