



Have Pot Stocks Finally Run Out of Steam?

Description

At the start of the month we saw some big selling on the markets, which resulted in big declines for cannabis stocks. While we've see a little bit of a recovery since then, the hype that was pushing the stocks late last year seems to have calmed.

Canopy Growth Corp. ([TSX:WEED](#)) has declined more than 20% in the past month, as has **Aurora Cannabis Inc.** ([TSX:ACB](#)). Meanwhile, **Aphria Inc.** (TSX:APH) has lost more than a third of its value during that time.

Pot stocks have done tremendously well in the past year, and even with the recent decline factored in, all the aforementioned stocks are still up over 120%, with Aurora still near 300% returns. Much of the growth started to happen in the last quarter of 2017, and investors have been left thinking twice about these valuations, especially in light of some of the [big price tags](#) that have been assigned to fairly small and unknown companies.

Has interest fizzled out?

A tool that I like to use to measure hype is Google Trends, which can show you just how actively searched for a search term has been. What's interesting to note is that in the past year, the excitement around pot came in mid-January amid all the drama between Aurora and **CanniMed Therapeutics Inc.** (TSX:CMED), as investors were wondering [whether or not the deal between the two companies would go through](#).

Since then, the number of searches has been cut by nearly two-thirds, and the level of interest is where it was back in October, before the frenzy was building and stocks were taking off. The evidence suggests that the drama in the industry helped to keep investors interested, and now we have seen that excitement start to come down, perhaps in the wake of some alarming valuations.

Has this improved valuations?

While the decline in price has made strides in improving some of the obscene price tags we've seen for cannabis companies with low sales, you're still going to be paying a big premium for a lot of hope and

potential. Canopy trades at over 80 times its sales, while Aurora is still at a price-to-sales ratio of more than 160.

What's perhaps most surprising is that even while Canopy posted another strong quarter earlier this month and even finished in the black, which is a rarity for pot stocks, that has failed to muster up much momentum for the share price.

Takeaway for investors

Although we're seeing some stability in the industry right now, I wouldn't expect this to last. Especially as we get closer to marijuana legalization, we'll see excitement come back, and valuations will likely continue to go higher. The rate cannabis stocks were on was simply unsustainable, and it was only a matter of time before things calmed down.

The risk of investing in pot stocks hasn't gone away, but in the short term I still see the potential for decent returns to be made. Once we start to see a more realistic picture of just how big growth is or isn't in the industry, then we'll get a more accurate idea of just how fairly valued the stocks are.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

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

PARTNER-FEEDS

1. Msn
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