



## Are Pot Stocks Drying Up?

### Description

The market has seen its share of ups and downs lately as volatility reigns supreme. After a meteoric rise in the late fall, the sector has cooled in the first quarter of 2018. Outside of a few outliers, the bulk of the major players in the industry have all underperformed the market by a significant margin.

The largest company by market capitalization, **Canopy Growth Corp.** ([TSX:WEED](#)), has lost 14% year to date. Likewise, the other two biggest marijuana companies, **Aurora Cannabis Inc.** ([TSX:ACB](#)) and **Aphria Inc.** (TSX:APH) have lost 28% and 46%, respectively. Are pot stocks starting to dry up? Not necessarily.

It's all a matter of perspective. If you bought it at its peak, the current plunge can be unnerving. Over the past three months, the **Canadian Marijuana Index** has lost 319 points, or approximately 33% of its value. However, looking back six months, the same index has returned a whopping 137%. No Canadian sector index has come close to matching this performance.

The marijuana industry is in its infancy and as such, investors must brace themselves for continued volatility. It's a normal phenomenon for high growth companies. If you are a risk-averse investor, your best option is to invest in equities with low beta. A company's beta measures its volatility as compared to the market as a whole.

As an example, Canopy Growth's beta is 3.45, which means that it is theoretically 245% more volatile than the market. In other words, investors can expect larger price swings by investing in Canopy than they would the broader market. Aphria's beta is even higher at 4.36, implying even greater volatility. On the other hand, Aurora Cannabis has a very low beta of 1.52 as compared to its peers. Investors looking for a more stable investment might then consider taking a position in Aurora over the other two big players.

The broader market has been destabilized thanks to uncertainty around trade agreements between the United States and its trading partners. Trump's protectionism policy has left investors skittish. In the near term, investors can expect the wild market swings to continue.

There is however, a silver lining. Cannabis stock valuations were perhaps getting a little too ahead of

themselves. In actuality, this mini-correction is very healthy for the industry. Investors can also expect to see further consolidations as the big players scoop up the little producers. In 2018, there have already been two major takeovers as Aurora acquired **CanniMed Therapeutics** and Aphria bought Nuuvvera.

The recreational marijuana market in Canada is expected to reach \$8 billion in sales annually. Globally, the market is expanding at a rapid pace and there is currently not enough supply to meet expected demand. There is no question about the viability of pot stocks as an investment; there's huge demand for their product. The trick is investing in the ones that will be industry leaders years down the road.

## CATEGORY

1. Investing

## TICKERS GLOBAL

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

## PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

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mlitalien

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