



Will Canadian Pot Stocks Still Beat the Market This Year?

Description

The year 2017 has been an amazing year for Canadian pot stocks, with investors wanting to ride the green rush. But the excitement seems to have dampened since the beginning of the year.

Let's see why the cannabis sector is falling and if there's a possibility that pot stocks still outperform the TSX this year.

Cannabis stocks skyrocketed last year

Cannabis stocks soared throughout 2017 in anticipation of 2018's broader market for cannabis legalization, which now represents more than \$25 billion. While many cannabis companies haven't made a profit yet, the marijuana market has robust long-term [growth potential](#). Indeed, Canadian sales could soon reach between \$7 billion to \$12 billion a year.

In 2017, the TSX had a total return of 9.1%. While this isn't a bad return, the three largest Canadian pot companies had triple-digit returns. Indeed, **Aurora Cannabis Inc.** ([TSX:ACB](#)), **Aphria Inc.** ([TSX:APH](#)) and **Canopy Growth Corp.** ([TSX:WEED](#)) had returns of 317.4%, 271.0% and 225.4%, respectively, in 2017.

Why are cannabis stocks dropping?

After reaching an all-time high in January, cannabis stocks started crashing. While the TSX has a return of -6.1% year-to-date, Aphria, Aurora, and Canopy are underperforming, with returns of -48.1%, -22.9% and -13.5%, respectively.

Marijuana stocks grew too fast last year as investors rushed into this market, leading to stocks becoming overvalued, with some stocks trading at more than 100 times sales. To consolidate their gains, investors began taking money off the table, which led to the marijuana market correction.

While the correction may continue for some time, I don't believe it will last. I think we'll witness a strong rise in pot stocks prices in the last half of 2018. So, pot stocks could still beat the market this year, but there's an even stronger possibility that they will beat the market *next* year.

Profit from the crash to buy pot stocks on the dip

The fall in prices makes the valuations of pot stocks more reasonable and more attractive. When the companies hit bottom and the correction subsides, you'll be able to buy cannabis stocks for a bargain. With Canadian marijuana legalization slated for this summer, marijuana stocks should see strong growth.

The correction is thus an opportunity to buy pot stocks on the dip before they rise following the legalization.

Which pot stocks should you buy?

In my view, Canopy Growth, Aurora Cannabis, and Aphria are still among the [best pot stocks to buy](#).

Canopy Growth is the largest player in the industry, which makes this company the most stable in the sector. It's less risky than other pot stocks, and as such, it falls less hard during a correction. Canopy is thus a good choice if you don't want to take too much risk.

The company is poised to take advantage of the upcoming marijuana legalization by regularly making deals and partnerships with international markets.

Canopy's revenue and earnings are expected to grow by 325% and 129%, respectively, in 2019.

Aurora Cannabis is also a great pot stock, but more volatile than Canopy. This company is also internationally focused, and has made smart business acquisitions of competitors in preparation for marijuana legalization.

Aurora's revenue and earnings are expected to grow by 346% and 600%, respectively, in 2019.

Aphria is one of the lowest cost producers with one of the largest built capacities in the industry. The company recently expanded its international reach by acquiring Nuuvera for \$826 million.

Aphria's revenue and earnings are expected to grow by 452% and 58%, respectively, in 2019.

Bottom line

Although Canadian pot stocks dropped more than the TSX during the last three months, they can still beat the market this year. There are more than eight months left in 2018, and many things can happen during this period.

I believe that the legalization of marijuana will boost pot stocks prices during the second half of the year, which may prove sufficient for pot stocks to beat the market. If not, I expect pot stocks to beat the market in 2019.

CATEGORY

1. Investing

TICKERS GLOBAL

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

PARTNER-FEEDS

1. Msn
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