

Canadian Pot Stocks Get Hit Hard: Is it Time to Invest?

Description

Investors have turned decidedly more risk averse in 2018, after a year of the TSX hitting record highs and of bubble-like mania in different segments of the financial markets.

[Bitcoin](#) is the most obvious example of the bursting of this investor mania, as it traded above US\$20,000 in 2017, only to plummet to levels of below US\$7,700 in recent trading.

Marijuana stocks are the other segment of the market that have followed a similar pattern. Although marijuana companies have a real opportunity that is a significant one, it doesn't change the fact that their stocks really got ahead of themselves and probably still are today.

Canopy Growth Corp. ([TSX:WEED](#)), **Aurora Cannabis Inc.** ([TSX:ACB](#)), and **Aphria Inc.** (TSX:APH) have plummeted 34%, 45.7%, and 56.5%, respectively.

So, what's next from here?

Are [marijuana stocks](#) finally a good, practical investment choice, or are they still a gamble?

I vote for the latter.

The investment decision is one that should balance the risks and the potential rewards, one that is based on real fundamentals, and one that attempts to reduce the risk as well as to maximize the rewards. It's a delicate balance.

Unfortunately, at this time, the marijuana industry is still fraught with so much risk and uncertainty that makes its analysis a big guessing game, filled with assumptions that can go in a variety of different directions.

This goes against one of the very important tenets of investing, which is to minimize risk and to make sure that the risk/reward balance is tilted in your favour.

And **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)) seems to agree; it's limiting its financial advisors' ability to recommend pot stocks to their clients.

In closing, I would like to review a couple of the most recent equity raises in the marijuana space.

Canopy issued shares in February at a price of \$34.60 per share. The stock is currently trading 19.6% lower than the issue price.

Aphria issued shares in January at \$13.75 per share. The stock is currently trading 27% lower than the issue price.

Money was made, but not by investors. And it is unclear when the stocks will get back to those levels,

as valuations are still in crazy territory.

A reality that is far less appealing than the hype may be setting in.

The timing of legalization for recreational use remains uncertain, distribution rules are unclear, and a greater focus on the business models of these companies and the ultimate supply/demand balance has been sobering.

There will be a place for these marijuana companies and these pot stocks; that's certain.

But I think investors are best to wait and see how this shakes out before getting into these stocks, so that the risks are lessened, and the odds can be stacked in their favour instead of in the "house's" favour.

CATEGORY

1. Investing

TICKERS GLOBAL

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

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