



Are Canadian Marijuana Stocks Already Going Bad?

Description

Stocks in pot producers have been oscillating of late, first buoyed by the coming legalization of the ubiquitous leaf and then shaken by rumours of postponement. Has marijuana already had its big moment on the TSX or is there time for another hit?

In this article, we're going to take a look at whether the Canadian marijuana boom will actually happen — and what patterns might emerge through the smoke post-legalization. We'll also look at the [best pot stock to consider holding](#), if any.

Has the marijuana boom already been and gone?

Where an illegal market already exists for a product, the creation of a legal market is going to cause fluctuations. It happened with alcohol post-Prohibition and it's happened *already* with marijuana. Will there be a boom? In fact, the boom may already have been and gone.

As a case study, let's take a look at what happened in the State of Oregon when it legalized weed. In 2017, retail prices for pot plummeted by 50% in that State, dropping from \$14 a gram to \$7 at the time of writing. Over-production and too many competing companies led to a flooded market, with stale growth in demand in no way matching the massive spike in production.

And the same could happen in Canada. By adding legal production to an illegal market that is already doing fine, thank you very much, you could end up with problems in demand as well as supply. In short, there will be too many suppliers, with little or no growth in consumption. That could very well send the retail value for legal marijuana down to zero.

Marijuana investment is an ethical minefield

Does a flooded market with a poor outlook for demand sound bad to you? Well, it gets worse.

There are ethical issues that might have a very real impact on investment going forward. First, it's possible that flooding the market with legal marijuana will lead to an increase in users turning to harder drugs; a knock-on uptick in opioid use in the news, for instance, would definitely affect marijuana retail

prices, as well as investment choices. Second, by removing marijuana from the roster of street dealers' revenue, Canada could end up with a complicated drug problem, which isn't good for legal marijuana's PR machine.

Even if the moral aspect doesn't bother you, it's almost 100% certain that the illegal marijuana trade won't just go away once the LCBO starts stocking the green stuff. Such competition from an already stable black market won't do retail prices any favours, let's put it that way.

Still want to put pot in your portfolio?

To paraphrase Dewey Cox, if you're thinking you *would* like to try some of this, then here are the best stocks to consider based on early financial results:

Cronos Group Inc. (TSXV:CRON)([NASDAQ:CRON](#)) has seen a massive year-on-year revenue increase of 473.2% based on an increase of 672% in grams sold over the same period. Licensed by the Access to Cannabis for Medical Purposes Regulations (ACMPR), it produces medical-grade marijuana and holds assets in Australia and Israel. But is this growth reassuring or a red flag for cautious investors?

Aurora Cannabis Inc. ([TSX:ACB](#)) is, like Cronos, licensed by the ACMPR to produce and sell medical marijuana. Aurora recently got the munchies, gobbling up **MedReleaf Corp.** (TSX:LEAF), for over \$3 billion in stock. But at just 200% increase, its year-on-year revenue in no way matches that of Cronos. Still, that's a huge growth spurt, putting it ahead of the game and squarely on our radar.

Aphria Inc. (TSX:APH) has also been piling on the pounds (or should we say Canadian dollars), adding 100.6% to its year-on-year revenue. Medical marijuana is a safe bet, as when the dust settles, doctors may continue to prescribe marijuana even if the LCBO can't shift it. And that's where Aphria has been putting its money, with a huge expansion of its production facility in the works.

With all of the above stocks trading at around \$10 a pop at the time of writing, you could bag yourself something tasty for the weekend if pot is still doing anything for you. And as legalization nears, a stable company is your best bet, especially one with overseas deals. The takeaway? Do your homework and look at stock that's diversified across medical marijuana markets beyond that of Canada.

The bottom line

Pot took a bit of a hit (no pun intended) in recent weeks following the news that the LCBO rollout is due to be postponed. It's just this sort of announcement that gives emerging markets major jitters, and stock prices have reacted accordingly. [Could the bubble burst before legalization even happens?](#) One way or another, someone is likely to make money out of legalization, but due to the complexity of the market, it might be hard (or impossible) to tell who. If you want to cash in, you'd better pick your horse now or steer clear altogether.

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