



## Are Pot Stocks Ready to Bounce?

### Description

Canada's hottest industry has taken a pause in the first half of the year. Down from its January highs, pot stocks have [been under pressure](#) due to high valuations.

Some of the hottest names in the business including **Aurora Cannabis Inc.** ([TSX:ACB](#)) and **Aphria Inc.** ([TSX:APH](#)) are sitting on losses upwards of 41% so far this year. The only significant outlier is **Canopy Growth Corp.** ([TSX:WEED](#)), largely considered the best in class and is up 8% year-to-date.

Despite the recent downturn, short sellers continue to target the industry. In the most recent short selling report, investors have upped their bearish bets on marijuana stocks to a record \$2.1 billion. Almost 10% of Aurora shares are short, and it's the same for Canopy and Aphria.

This brings us to the opportunity in the form of a short squeeze.

### What's a short squeeze?

In case you're not familiar with the phrase, investors short a company's stock when they have a bearish outlook. They sell the stock short in anticipation of buying the company at a discounted price at a future date. In other words, they believe the price of a stock will go down.

A short squeeze is the result of a high number of short sellers covering their short position. This results in a spike of buying volume, which drives the share price upwards. As a greater number of short positions are opened, the greater the upwards potential. It is short-term in duration, and results in a rapid stock price increase.

### Why a short squeeze?

There are usually two catalysts for a short squeeze: when the stock rises to a price where investors must make a margin call, and when short sellers cut their losses or lock in their gains and get out. The latter is most likely to occur.

The legalization of the recreational use of marijuana in Canada is just around the corner. This is the

biggest catalyst in the industry's history. It's what has driven the sector to new highs and what will push short sellers to [cover their positions](#).

Short sellers are taking significant risk if they keep their positions before the final vote to legalize marijuana. There are outside forces that are attempting to delay legalization, but the Liberals are steadfast in their commitment. Oh — and they have a majority government. At this point, it would take an extraordinary event for the feds not to vote in favour of legalization. The vote is scheduled to take place on June 7.

### Potential for significant gains

Once the vote passes, there will be a renewed interest in the sector. With the uncertainty of legalization removed, conservative investors may start to invest in the sector. Investors should look to those cannabis stocks that are best valued and have already locked up provincial deals. Stocks like Aphria and Aurora are best positioned to bounce and ride the next wave up.

### 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

### Category

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