



Pot Stocks Are Starting to Take off Again!

Description

Marijuana stocks are starting to pick up steam again. This year has been a rough one so far for pot stocks, but there are signs that the hype is returning to the industry, which could make it a great time to buy. The reason for the hype is that we're getting closer to legalization and other pot-related news is helping the industry stay in the headlines.

One big development was **Aurora Cannabis Inc.** ([TSX:ACB](#)) making another [acquisition](#) as the company continues to strengthen its position in the market; with so much fragmentation in the industry, there are still more mergers and acquisitions to come.

After all, small companies will be better off partnering with one of the big market leaders rather than trying to fight for market share alone in an industry where advertising will be restricted, making it difficult to convince customers to pick one brand over another.

In addition, we recently saw **Canopy Growth Corp.** ([TSX:WEED](#))(NYSE:CGC) list on the NYSE in another big milestone for the marijuana industry. Although it's not the first pot stock to trade south of the border, it is the first on the main U.S. exchange. This is a big development because it will give the stock access to many more investors and give the industry some credibility in legitimizing its existence and proving to investors that it shouldn't be ignored any longer.

The industry is moving in the right direction, which could result in share prices continuing to grow. In the past month, Canopy Growth's share price has increased more than 20%, while **Aphria Inc.** (TSX:APH) stock has risen 17%. Aurora Cannabis, however, has seen a milder, single-digit bump in price during this period. Year-to-date, Aurora Cannabis is still down 15% and Aphria has lost nearly 40% of its value.

This suggests we could still see more of a recovery in the industry if the excitement is really starting to return.

How much higher can valuations go?

While there is no question that there are plenty of great growth opportunities available in the industry,

the problem is whether the stocks are priced [too high](#) — and if these expectations are already priced into existing share values. With profits being rare to come by in the industry, price-to-sales is a better gauge of valuation, but it doesn't make things any better.

Aurora Cannabis is trading at more than 100 times its sales, and that's only because it has come down in price over the past several months. The stock was previously trading much higher. If these multiples stayed intact, then we'd definitely see a lot more room for prices to rise.

However, investors are starting to pay less of a premium, as many have cashed out their profits. And with many more alternative companies to invest in, there's also less reason to buy one of the big-name stocks today.

Bottom line

Cannabis stocks are rising in value, although not across the board. Pot stocks aren't immune from big sell-offs, and investors should consider valuations before buying.

CATEGORY

1. Investing

TICKERS GLOBAL

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

PARTNER-FEEDS

1. Msn
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