



## Is There Any Upside Left for Pot Stocks?

### Description

Marijuana stocks were soaring last year, and although we've seen that pace slow down for much of 2018, it looks like the frenzy is gaining steam again now that the bill to legalize cannabis has been [passed](#). Officially, Prime Minister Justin Trudeau announced that it would be mid-October when pot sales would commence, giving the provinces ample time to prepare for the sale and distribution of pot.

#### Pot stocks given a big boost

Legalization has certainly given struggling cannabis stocks new life, as even **Aphria Inc.** (TSX:APH), which has been struggling mightily this year, has risen more than 13% over the past five days of trading. Year-to-date the share price is still down 30% but it's a welcome sign of bullishness for many investors that have likely been frustrated with the stock's performance this year.

**Aurora Cannabis Inc.** ([TSX:ACB](#)) has also seen a similar increase in price, rising more than 16% during the same period, and it too has struggled this year after investors became concerned with the [high price](#) that the company paid for **MedReleaf Corp.** (TSX:LEAF).

**Canopy Growth Corp.** ([TSX:WEED](#))(NYSE:CGC) is another stock that has gotten a boost from legalization, with its price rising around 20% in just the past five days as it closes in on \$50. Year-to-date, Canopy Growth has risen more than 60%, and it's been one of the top-performing pot stocks on the TSX this year.

#### Can the growth continue?

The big question cannabis investors should be asking is just how much more upside these stocks have given the strong returns we've already seen.

Pot stocks have been known for their obscene valuations in the past, so if Canopy Growth is trading 10 times its book value and more than 130 times sales, it doesn't send off the same alarm bells that might be expected in other industries.

The danger of investing in a stock that has risen so much in value is buying at the peak, and that's why

speculative buying puts investors at risk, because the investment is valued based on potential (which sometimes isn't grounded in reality) rather than on fundamentals. Investors only need to look at what's happened with Bitcoin as an example of how quickly things can turn from bullish to bearish.

As a speculative buy, pot stocks could still generate great returns, but there's also a lot of risk involved in investing in cannabis that shouldn't be ignored. We've seen the industry been very reactive to news, and that in itself poses a big risk, as if we were to see a big legislative change south of the border that makes investors bearish on cannabis, then that could quickly send stocks reeling.

When fundamentals are not involved in investing, stocks can be more susceptible to external factors influencing their overall value, which puts investors at greater risk.

### **Bottom line**

I don't believe that we've reached the peak for pot stocks just yet, but that doesn't make it any riskier to invest right now. There's still a lot of uncertainty in the industry relating to how strong demand will be and just how much of a factor the black market will play. For those reasons, pot stocks should be treated as highly-speculative buys.

### **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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1. Investing

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