Last Call to Buy Canopy Growth Corp. (TSX:WEED) and Aurora Cannabis Inc. (TSX:ACB) Before They Roll Back to the Green?

Description

Canopy Growth Corp. (TSX:WEED)(NYSE:CGC) stock is now down over 32% from all-time highs and appears to be bouncing off its low $20 level of support. This very well could be the last call for marijuana investors as we inch closer to legalization day, which is less than three months away!

There's no question that there's an immense supply shortage on the horizon. While Canopy is one of the best-equipped firms to meet the sky-high demands in the post-legalization era, I think investors ought to consider the longer-term picture, which I believe is even more attractive.

The "green rush" begins, but it'll only last about a year

Most pundits see the vast supply shortage only continuing for about a year or so, as supply has the opportunity to catch up to demand as all licensed producers (LPs) ramp up on production and expansion.

After this "green rush" window closes, when an equilibrium between supply and demand is reached, marijuana is going to be nothing more than a mere commodity if Canadian regulators strictly enforce their rules — rules that will make it very hard to differentiate between one firm's marijuana and another's.

Simply put, marijuana is theoretically supposed to be completely fungible, or at least that's what regulators want.

After the marijuana market hits equilibrium, continued consolidation and product differentiation come next

While the big pot firms like Canopy and **Aurora Cannabis Inc.** (TSX:ACB) have attempted to differentiate themselves from the crowd through the promotion of live events, Canadian regulators are likely going to put an end to that come legalization day once formal enforcement actions are finalized in writing.

While some LPs may be more willing than others to test the boundaries of the rules, I believe the big players in Canopy and Aurora will fully abide by the rules, as the punishments for non-compliance could be severe. As such, one of Canopy's number one advantage, branding prowess, won't be fully utilizable.

In the meantime, Canopy and Aurora are going to continue scooping up smaller rivals while subtly differentiating themselves via creative mediums such as swag and free merch, which to my knowledge, won't be off limits through the eyes of regulators.

I believe consolidation efforts won't be enough to drive marijuana stocks higher, as almost nobody (not even the acquirer) will be able to put an accurate, fair value price tag on M&A deals given the ridiculously volatile state of the nascent industry.

Foolish takeaway

The first quarter in the post-legalization environment is judgement day for pot firms.

Canopy and Aurora appear to be those most prepared to supply the immense demand during the "green rush" period, and I suspect the first quarter could deliver triple-digit year-over-year growth numbers that could send each respective stock into the stratosphere.

This short-term opportunity will drive pot stocks in the near-term, but over the long haul, Canopy and Aurora are going to need to differentiate themselves from one another after the pot market reaches an equilibrium between supply and demand to gain the advantage.

Canopy, I believe, may have the edge due to management's prior emphasis on building brands, but we'll need to hear more from regulators as to what's off limits (Snoop Dogg) and what's not (branded hoodies).

For now, depressed marijuana stocks look like they could represent a "last chance" for investors interested in profiting from the marijuana "green rush."

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