Green Gold or Real Gold: Which Growth Stocks Are Best?

Description

Some investors are still referring to weed stocks as "green gold." But how do legal marijuana stocks compare to shares in actual gold? Let's take one of the most representative growth stocks from each industry and see how they compare.

Get into green gold or real gold for growth?

Growth investors have been going head over heels into weed stocks this past year. However, some analysts are comparing the rush to the dot.com bubble. Valued in the billions but without generating any profits, many of these stocks offer investors prospects that may not be realistic, especially when likely provincial profit regulations are factored in.

Gold, meanwhile, has a track record that's about as old as human civilization. Growth in gold stocks is dependable and is based on quantifiable indices, such as supply and demand, that you can touch and feel. Gold exploration and development are tried and tested, and demand is well documented, leading to calculable risks and rewards.

While precious metals have famously volatile prices, they are considerably more stable than those of pharmaceutical assets. With so many legal weed companies out there vying for a share of the pie, it's easy to foresee a saturated market. What's less obvious is where expansion is going to come from other than oversees medical markets.

High growth or just high hopes?

It's time to look at some bare facts and compare two high-growth stocks: one from the weed industry and one from the world of gold mining. Which is a buy today based on value and prospects?

Hydropothecary Corp. (TSX:HEXO)

Overvalued by almost three times its future cash flow value, this much-lauded weed stock is poor value for money today. As a loss-making stock, Hydropothecary has unreadable value multiples, meaning that we have to take that overvaluation at face value.

We can correlate this overvaluation with the stock's P/B of 2.5 times book, which is somewhat higher than the TSX average and indicates that buyers today will pay two-and-a-half times what the stock is worth in terms of assets. Growth investors are getting into this stock for its 156.9% expected annual growth in earnings, though risk-averse buyers should ask whether this is sustainable or realistic.

Alio Gold Inc. (TSX:ALO)(NYSE:ALO)

Discounted by over 50% compared to its future cash flow value, a gold stock this healthy and this cheap is a clear buy for any growth investor. Alio Gold has perfect multiples: a P/E of 6.4 times earnings, PEG of 0.2 times growth, and P/B of 0.3 times book. These ratios are as low as an investor could wish for and look great coupled with a significant and realistic 36.3% expected annual growth in earnings. A very stable stock with zero debt, Alio Gold also trades on the London Stock Exchange.

The bottom line

In today's uncertain economic climate, high-growth stocks are an increasingly risky investment strategy. While the potential upside for weed stocks is reportedly enormous, a more risk-averse option might be gold stocks.

Gold has an ancient heritage in terms of economic safety; it has a proven and well-established market, demand is high, and there is still the potential for high growth, which should satisfy investors with some appetite for risk. If you're looking to make mid- to long-term capital gains, the precious metals industry is a far safer bet. Pick the right stocks and getting into gold can double as a great defensive play as well.

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