



Bitcoin Has Crashed: Are Marijuana Stocks Next?

Description

[Bitcoin](#) was the big craze last year.

All one has to do is look at the chart that shows Bitcoin's rise in three short months from September 2017 to December 2017 to see the euphoria — a return of over 500%!

But this year, things have shifted dramatically, and since then Bitcoin has come crashing down to the tune of 63%.

Marijuana stocks have followed a similar trajectory, as they have continued to defy gravity and valuations, trading largely on excitement and, dare I say, euphoria.

And while there are certainly many differences between [marijuana stocks](#) and Bitcoin, there are big similarities in their trading patterns: the volatility, the euphoria, the optimistic, rose-coloured glasses.

Here's why I think marijuana stocks may finally be headed for a crash, and why I would take my profits and run at this point.

Buy on rumour, sell on news

If you have not heard of this investing advice, it is pretty much self-explanatory.

More often than not, investors bid up stock prices through rose-coloured glasses in anticipation of a positive event, focusing only on the positives, but then when the event is actually announced, reality sets in and investors begin to take a more realistic view of things, traders exit their positions, and the stock falters.

The legalization of recreational use is this upcoming event.

Valuation

From the looks of things in the last week, it looks like we may be seeing the beginning of the sell-off, with **Canopy Growth** ([TSX:WEED](#))(NYSE:CGC) down 16%, **Aurora Cannabis** ([TSX:ACB](#)) down

1.5%, and **Aphria** (TSX:APH) down 15%.

Looking at valuation, this downtrend makes sense to me.

I mean, WEED stock, for example, is trading at 150 times its price-to-sales multiple, it has withstood many consecutive quarters of the company, reporting larger-than-expected losses, and, at this time, it is expected that the company will generate a profit only in 2020, but this remains very uncertain.

ACB stock looks even worse, trading at a price-to-sales multiple of 190 times and still racking up losses.

APH stock is just a little different from this perspective. It's trading at a price-to-sales multiple of 109 times, but it has at least seen profit in many of its quarters.

In conclusion, I would like to say that while I recognize these are growth companies that, by definition, will operate at losses in order to get their businesses up and running, I become skeptical when I see how these stocks have defied gravity, sending them into bubble territory, with price-to-sales multiples that are just too high.

While I recognize that the market for marijuana is huge, there is still a point where we can overpay for a great business opportunity.

CATEGORY

1. Investing

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1. Editor's Choice

TICKERS GLOBAL

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

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