

# Why Pot Investors Ought to Mark Down Early February on Their Calendars

## Description

Legalization of marijuana in Canada is right around the corner, and Canadian investors who have bought into this mania and are sitting pretty are anxiously awaiting and expecting amazing results from the cannabis sector this upcoming quarter, one which should prove the viability of the recreational cannabis market and prove bears like me wrong.

October 17 is the official date the Canadian government has set to legalize the green commodity, and with provincial government-run stores and a small number of private stores beginning to open, expectations are that revenue and profitability will shoot through the roof in the coming months.

Certainly, a bump is to be expected, but what I and many other analysts and investors will be paying close attention to is the rate at which cannabis producers are able to grow their top and bottom lines — an unknown which remains to be seen.

Early February will be the time when most cannabis producers will release earnings, making this a potential turbulent time for investors, given the scope and scale of expectations built into the stock prices of most major cannabis players in this market. Among many experts who have cited robust supply and a [black market](#) which is unlikely to go away any time soon, Ontario's finance minister Fedeli has been quoted as saying he believes "robust supply" is in the cards post-legalization, adding fuel to the fire for bears who believe a reckoning may be on the horizon given the scale of what could only rationally be categorized as reckless investing by those who have little to no focus on fundamentals in this sector.

## Bottom line

Most pot producers in Canada are trading at triple-digit valuation multiples in this overly frothy market. Perhaps the most recognizable name, **Canopy Growth** ([TSX:WEED](#))(NYSE:CGC) is currently trading at a price-to-sales multiple of more than 170, meaning it will take 170 years of revenue for investors to be paid back at current equity valuations.

As I've pointed out in a [past article](#) highlighting what was, at the time, a seemingly ridiculous price-to-sales ratio of 135 times for **Aurora Cannabis** ([TSX:ACB](#)), price-to-sales ratios above 1.5 are considered by many value investors to be significantly overvalued, making valuation multiples more than 100 times this multiple seem even more obscene than ever.

It appears conservative investors such as me will continue to be ridiculed by retail investors until the tide turns.

I would encourage investors to step away from "story" stocks at this point in time and focus on long-term fundamentals or face the wrath of a financial market reverting toward a long-term mean sometime in the near to medium term.

There are far too many “buy signals” in the market right now, and these stocks certainly do not qualify.

## CATEGORY

1. Investing

## TICKERS GLOBAL

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

## PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

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