



## Marijuana Stocks for Millennial Investors: Is it Too Late to Join the Party?

### Description

[Marijuana stocks](#) continue to be where it's at.

Simply put, marijuana stock returns have been phenomenal, and every time analysts (including me) say the bubble is about to burst, these stocks trend higher.

It is quite sobering, I must say.

But as an investor, I am comfortable sticking to my guns, because avoiding downside and minimizing downside risk is important. And sticking with basic investing principles is still important, as is taking into considering the risk/reward profile of a stock.

So, where are we at today?

Let's start off by looking at year-to-date returns.

**Canopy Growth** ([TSX:WEED](#))(NYSE:CGC) stock has effectively doubled again year to date and is now trading at over \$65. **Aurora Cannabis** ([TSX:ACB](#)) stock is down 12% amid plenty of volatility. **Aphria** (TSX:APH) stock is pretty much flat year to date.

I still believe this market is overhyped, and that becomes clear when we look at [valuations](#), which still mean something.

Looking at price-to-sales multiples, Canopy stock trades at 164 times, Aurora stock trades at 226 times, and Aphria trades at 123 times.

We can also look at P/E ratios, as marijuana stocks have some analyst coverage now, and although these numbers are still very uncertain, we at least have a starting point to get a sense of expectations.

Canopy stock is trading at a P/E multiple of 228 times the 2020 consensus estimate. This estimate is based on five analysts, with a high of \$0.68 and a low of \$0.05. This big discrepancy in estimates speaks to the level of uncertainty and lack of visibility in this emerging industry.

Aurora stock is trading at a P/E ratio of 49 times 2020 consensus expectations, which is based on three analysts' forecasts.

Lastly, Aphria stock is trading at a P/E of 29 times 2020 consensus expectations, which is based on five analysts' forecasts that have a wide range as well.

Debt loads are rising and will continue to rise in accordance with increased spending that is typical with such growth companies.

Canopy now has a debt-to-total-capitalization ratio of 33.6%. Aurora has a 13% debt-to-cap ratio, and Aphria still has a negligible debt load. And with this debt comes interest expenses, which will reduce earnings.

I recognize that the cannabis market potential is huge. With deals being made with beverage companies, consolidation at a feverish pace, and international expansion, it seems that the good news is never ending.

But at the end of the day, cannabis is a weed with abundant supply, and margins will be regulated and will trend lower.

Investors are currently paying up for the potential blue-sky scenario but seemingly have not given the downside risk much credence.

I would rather stick to fundamental investing principles and be wrong than act on hype and potentially lose my shirt. I can sleep at night this way — and protect my capital.

Millennials would be wise to do the same. We don't want your first foray into the stock market to eat away at your savings.

## **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
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