



## Marijuana Stocks: Is Tilray Inc.'s (NASDAQ:TLRY) Wild Swings a Sign of Bubble Burst?

### Description

After seeing the wild swings in the share price of **Tilray Inc.** ([NASDAQ:TLRY](#)) last week, there is a little doubt left to conclude that marijuana stocks are in bubble territory and investors should make their moves with extreme caution.

Within five trading days, [Tilray stock](#) took investors to one of the wildest rides one can imagine. Shares in the Nanaimo, British Columbia-based weed company, had more than doubled by Wednesday on the news that the U.S. Drug Enforcement Administration approved Tilray's plan to import a medical cannabis product.

But this mind-boggling reaction to just a regulatory development proved very short-lived; the shares wiped out that gain within an hour.

By the end of the trading week on Friday, Tilray stock was trading at \$123 a share after reaching \$263.34 on Sept. 19.

### Crash in pot stocks can't be ruled out

This level of volatility shows that the gains in pot stocks are driven by speculators, and a crash in their share values is very much a possibility.

Despite last week's terrible ending, Tilray stock is still up 623% since going public in July. The stock that listed on the Nasdaq instead of the Toronto Stock Exchange quickly became the darling of U.S.-based speculative traders.

Its \$11.45 billion market cap is just behind the largest weed producer **Canopy Growth Corp.'s** ([TSX:WEED](#))(NYSE:CGC) that commands \$14.37 billion in market cap.

The latest investors frenzy to invest in pot stock triggered by **Constellation Brands Inc.**, ([NYSE:STZ](#)) the maker of Corona beer, announcement last month that it is investing \$3.8 billion in Canopy to boost its stake in Canadian grower ahead of the scheduled legalization of recreational pot use in October.

The world's leading alcohol beverage company sees a global opportunity in Canopy, which is benefiting from the growing use of marijuana for both medical and recreational purposes in the developed world.

Despite a favorable regulatory environment and a traction that weed producers are getting these days, the sector is still in its nascent stage and far from achieving meaningful profitability.

Tilray, for example, made \$9.7 million sales in June quarter and produced a loss of \$12.8 million during that period. Its \$11.4 billion market cap, however, is higher than **Alcoa Corp.**, which made \$11.6 billion in sales last year.

If you're an investor seeking high returns, I don't think this is the right time to jump in and buy pot stocks. The market has become attractive for short-sellers, and there is a growing chance of sector-wide correction.

### Bottom line

Going forward, however, buying a couple of quality marijuana stocks won't be a bad idea once the dust is settled. But in this space, I would advise to stick with the biggest names, which have the capacity to perform in a market that's still in its infancy.

Among the top names, I like [Canopy Growth](#) due to the company's leading market position. Canopy is ideally positioned to take advantage of the anticipated demand boom from recreational pot users.

### CATEGORY

1. Investing

### TICKERS GLOBAL

1. NASDAQ:CGC (Canopy Growth)
2. NASDAQ:TLRY (Tilray)
3. NYSE:STZ (Constellation Brands Inc.)
4. TSX:WEED (Canopy Growth)

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