



## Putting Money in Cannabis Is Speculation: Don't Confuse it With Investing

### Description

Gambling is not really my thing. I'm the kind of guy who, if I do walk into a casino, only bets the free birthday money that I get in the mail. I like a sure thing if I can get it, or the closest thing to it. I hate to lose money, especially when I already know that the odds are not stacked in my favour.

I have to admit, though, my ultra-conservative mix of GICs has not hit any home runs recently. When I see growth companies blowing my portfolio of steady dividend-paying companies out of the water, I begin to feel a little bit ridiculous. Sometimes it looks like it pays to gamble. I know plenty of average people doubling and tripling their money on stocks that have hardly any earnings to speak of.

Now, I will give the concession that buying shares of highly speculative companies, such as those in the cannabis industry, for example, is more akin to speculation than gambling. And these companies make excellent vehicles for technical day traders looking to capitalize on chart trends. But make no mistake, these are not well-established companies with steady, predictable revenues and earnings. This is a gold rush, and no one knows how it will end.

This is not to say that these are not potentially good companies. For several of these companies, their financial statistics are quite good. They are often growing at incredible rates, making them look like appealing investments. Take **Aurora Cannabis** ([TSX:ACB](#)) for example. The company had a fantastic quarter with revenue growing a staggering 220%. It also realized an operating profit as opposed to a loss a year ago. On top of those numbers, Aurora increased production by 85% and sold 111% more product than it previously had. Aurora does look like it is making good business decisions that might indicate a bright future.

While these numbers look impressive and do, in fact, indicate the business is doing much better, speculators need to be careful. Relative numbers in percentages, while informative, can be deceiving. Do these big numbers justify a market capitalization of \$11.5 billion? It seems hard to believe if some simple comparisons to companies of similar market capitalization on an absolute basis are made.

Look at **Metro** ([TSX:MRU](#)), for example. This company has a market capitalization just slightly smaller than Aurora at \$10.5 billion. But Metro has revenues of \$13 billion as compared to Aurora's \$19 million.

Yes, Aurora's revenue is increasing at an incredible rate, but even if it continued to increase annually at a rate of 220%, it would take years to match Metro's current revenue. And considering Metro pays a [growing dividend](#) and has an established business, Aurora appears [incredibly overvalued](#) in comparison.

I know ... many of you are thinking this is like comparing apples to oranges. They are not in the same business and do not have the same growth profile. And, to a degree, you are right. There is no way to know how big the cannabis market will end up being. There is no way to know how big these companies will be in the end. But luckily there is a way to know whether something is expensive or cheap, and according to the numbers, cannabis stocks are outrageously expensive.

But it really depends on what you are trying to do. If you are speculating, don't get tricked into thinking you are making an investment. And don't get suckered by percentages. If I start a company and make \$1 in revenue one year and increase it a staggering 400% to \$4 the next year, it's still only \$4. In my books, choose the steady, solid dividend payer over the rush any time. But if you do decide to speculate, be very clear that you understand you are simply rolling the dice.

## CATEGORY

1. Investing
2. Stocks for Beginners

## TICKERS GLOBAL

1. TSX:ACB (Aurora Cannabis)
2. TSX:MRU (Metro Inc.)

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