

Is There More Carnage to Come for Cannabis Stocks?

Description

October was a tough month for cannabis stocks. Between a [massive selloff](#) that started on legalization day and the general TSX slide that came later, cannabis stocks got hammered in the markets. And now, one investment manager is saying there's more pain to come.

Brian Acker is the President and CEO of Acker-Finley. As an investment manager, he has been managing equity and currency trading funds since 1992. A regular on CBC Newsworld, Mr. Acker is well known in Canadian investing media.

Mr. Acker recently made headlines by saying that cannabis stocks still have further to fall. In a BNN Bloomberg interview on November 3, he said that as post-legalization earnings start to come out, there will be clear winners and losers in the cannabis space, and not all companies will survive. While he stopped short of saying that the cannabis sector as a whole will suffer, Mr. Acker believes that weaker performers will drag the sector down resulting in more carnage in the short term.

The worst isn't over

In his Bloomberg interview, Mr. Acker stated unambiguously that there is pain ahead. "We've had a little bit of a crash, but I think there's more to it that's going to come." He also said that he expected there to be bad news in pot stocks' fall earnings reports, which he believes will not hit their targets. He noted that, with the market paying particular attention to these stocks, there would likely be a strong selloff if there are any major earnings misses.

A few winners: many losers

Acker was quick to point out in his interview that not all cannabis stocks are set to fall. Specifically, he said that we're going to see a divided market where a few top players, perhaps **Canopy Growth Corp** ([TSX:WEED](#))(NYSE:CGC) and **Aurora Cannabis Inc** ([TSX:ACB](#))(NYSE:ACB) take the spoils. "As the fundamentals come out in terms of sales and earnings, the market will suss out who the winners are going to be," he said, adding that "the market will tell you probably in the first quarter of 2019 who you want to own and who not."

Avoid cannabis stocks altogether?

This brings us to the main question:

Should investors avoid cannabis stocks altogether, or should they wait for earnings and decide who the winners and losers are?

First, it always helps to invest with the "buy what you know" principle in mind. Investors tend to do better when they invest in industries they know well. If you're attuned to the legal cannabis market and have a solid understanding of which brands are doing best, you might be able to make a solid play.

As for fundamentals, as it stands now, there's a solid case to be made for avoiding pot stocks

altogether. Although some of these stocks, like **CannTrust Holdings Inc** (TSX:TRST), are [solidly profitable](#), the vast majority are not. Some have positive net income, but aside from CannTrust, I can't think of any that have positive operating income. I know I'm not rushing to put my money in pot stocks right now. But if I were to buy one, I'd probably wait for this fall's earnings and see who comes out on top.

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

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