



## Is the Cannabis Bubble Finally Popping?

### Description

Pot stocks have been trading at very high multiples to sales for a long time and even a lack of profitability has done little to curb excitement in the industry. However, we're starting to see signs of that changing.

This week, many marijuana companies are reporting their earnings, and the results have been very telling, as investors have not been buying up stocks that have simply achieved strong sales growth.

On Tuesday, **Cronos Group** ([TSX:CRON](#))([NASDAQ:CRON](#)) released its quarterly results, which showed sales rising by 186% year over year. However, the company reported a net loss of over US\$7 million, which was a big drop off from the profit it achieved a year ago.

Under normal circumstances, investors might have bought up the stock on news of strong growth and the continued expectation that it will remain strong with the market for recreational marijuana just launching. Instead, the reaction hasn't been positive at all for Cronos with investors showing an appetite to sell the stock.

**Tilray** ([NASDAQ:TLRY](#)) is in the same boat, as its latest earnings release saw sales rising 85% year over year. However, a lack of profitability and cash flow concerns have caused concerns for investors as after-hours trading showed the stock to be down 4%.

Earlier this week, **Aurora Cannabis** also released its results, which showed a 260% increase in sales, and that too wasn't enough to give its stock price a boost.

### Have we seen the peak?

This is really the big question investors should be asking, as the reactions from the markets relating to marijuana earnings are not very encouraging and suggest that people are finally looking at the financials and beyond just the top line.

There are some real problems and concerns that investors should have with many of these companies.

While many are concerned with growing as fast as possible into as many markets as possible, there's often little regard for keeping costs down and building a model that works.

We will get a better idea of how strong this trend is as we see more marijuana companies reporting their earnings and the reactions that follow. But with companies trading at more than 100 times their sales, it's hard to avoid calling what's been happening a "bubble."

Consider that Tilray's stock has a 52-week range of \$20 to \$300 at its peak, seeing an incredible run up in price followed by a significant correction shortly afterward. It's similar to what we saw happen with [Bitcoin](#) last year.

## Bottom line

The markets have been very bearish lately, and often when that happens we see speculative, high-risk investments take a bit of a beating. Cannabis stocks certainly fall into that category, and the likelihood that we'll see them rise back up to their previous highs seems remote.

While we saw a spike when beverage companies started showing an [interest](#) in the industry, that has started to wane as well, and without another catalyst to get investors excited about pot stocks, we could be seeing the start of a big correction.

### CATEGORY

1. Investing

### TICKERS GLOBAL

1. NASDAQ:CRON (Cronos Group)
2. NASDAQ:TLRY (Tilray)
3. TSX:CRON (Cronos Group)

### PARTNER-FEEDS

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

### Category

1. Investing

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