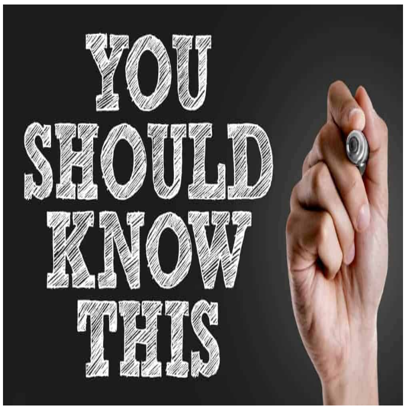

Cannabis Stocks Are Overhyped: Buy This Instead

Description

It's beginning to look like cannabis mania is at its end. After a disastrous first month of legal pot, disappointing earnings reports and a broad cannabis selloff, investors are finally souring on cannabis. One example of dimming investor sentiment can be observed in **Emerald Health Therapeutics** (TSXV:EMH), whose stock began dropping after an earnings report revealed it had grown its revenue at just 15% year-over-year despite spiralling costs.

In many ways, this year's cannabis rally resembled last year's cryptocurrency bubble. Although there were some differences, the two were similar in the sense that both rallies were inordinately influenced by hype. The stratospheric cryptocurrency gains seen last year were influenced not by people buying coins to make purchases, but by the perception that they would continue rising in value indefinitely.

Similarly, this year's cannabis stock rally was driven not so much by business fundamentals as by the perception that legalization would drive the value of cannabis stocks up.

So much for that.

But for investors seeking great TSX investment opportunities, all hope is not lost. In fact, the TSX abounds with opportunities for the discerning investor willing to put hype aside and invest in financially sound enterprises. One of the best?

The Canadian National Railway (TSX:CNR)(NYSE:CNI)

CN Railway is in many ways the opposite of a cannabis stock. It's an ancient company. Its P/E ratio is in the low teens. It practically oozes profit–by any metric you choose to measure. And it has dividend income to boot.

But what's really great about this company–and why I mention it as an alternative to cannabis stocks–is that it also has growth. In roughly five years, the stock has doubled. No, that's not the kind of return that we saw from cannabis stocks earlier this year, but it was achieved without any steep selloffs like we saw in cannabis stocks recently.

CN Railway's returns are backed by underlying fundamentals. In Q3, the company grew its earnings by 18% to $1.54 per share. Revenue was up 14.5%, and the company has achieved excellent profitability metrics, including a 42% profit margin and a 35% return on equity. In addition, it pays a dividend that yields 1.62%, which, although not high is better than the 0% you'll get with cannabis stocks.

Bottom line

Investing in the next big thing is always exciting. The promise of outsized returns is tantalizing, and even the thought of being on the cutting edge is a thrill in itself. It's these seductive feelings that drive the euphoria surrounding flavour of the month investments. But often, the underlying fundamentals don't justify the hype.

I'm not saying that cannabis stocks will never be worth buying again. It's possible that we'll see some surprise results early next year showing better-than-expected post-legalization earnings. But if you can find growth, value and income all in one package elsewhere, why gamble on an uncertain thing? As we can see from Canadian National Railway, buying a blue chip stock doesn't mean you need to sacrifice strong returns, and it can certainly spare you the fate of getting burned in a bubble.

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