Why Pot Stocks Could Be Headed Even Lower

Description

Pot stocks had been soaring prior to legalization amid big losses and relying on promises of future growth to get investors to jump onboard. However, we're seeing that trend start to subside as even the top stocks in the industry have been struggling badly.

Canopy Growth Corp (TSX:WEED)(NYSE:CGC), one of the most popular cannabis stocks to invest in, has suffered a deep decline over the past three months, losing 24% of its value.

It already started declining around the time that legalization hit, which could have been the result of investors selling off their gains, as the stock was trading at its 52-week high at well over $70 per share. Currently, Canopy Growth is at $44 at writing, and looks like it might have the potential to even fall below $40.

In its latest quarter, the company missed its expectations by a wide margin and posted a heavy loss overall. It was a big disappointment, as rather than the earnings result turning things around for the company, it actually made things worse.

Whether Canopy Growth will be able to recover back up to its previous highs is anyone's guess, but we're starting to see the first signs that perhaps expectations of strong growth aren't enough for investors, especially amid concerns that they may not be reached.

Aurora Cannabis Inc (TSX:ACB)(NYSE:ACB) is further proof of this trend, as the stock is coming off a strong showing in its most recent quarter with sales rising by 260%. The company did not have the disaster that Canopy Growth had, and yet its stock has struggled as well.

The stock has declined 7% in the past three months, and year to date it has fallen by more than 16%. At a closing price of $8 last week, it too has seemed to have found a new floor, at least for the time being.

Like Canopy Growth, Aurora Cannabis stock began declining in the days leading up to legalization and its quarterly results were not enough to convince the bears that it was a good buy.

If all we saw was Canopy Growth's decline, it might have made sense given that the company also had a poor showing, but the fact that Aurora has also failed to find any momentum suggests that we're starting to see a much bigger trend here.

Aurora and Canopy Growth have long been trading at high multiples to sales, and even after big declines, they're still expensive buys. Aurora is trading at around 100 times its sales, which, regardless of the industry or its growth prospects, is an obscene multiple.

The concern for cannabis investors today is that there are some strong trends that are weighing down marijuana stocks as a whole, and now that we're seeing some big corrections, investors will have to start focusing on more than just sales.

The honeymoon stage for pot stocks looks to be over, and both Aurora and Canopy Growth will have to show much more than just sales growth in order in order to be good buys anymore.

CATEGORY

1. Investing

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

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