

Pot Investors: Avoid Canopy Growth Corp (TSX:WEED) and Buy Shopify Inc. (TSX:SHOP)

Description

Even after top pot stocks like **Canopy Growth Corporation** ([TSX:WEED](#))(NYSE:CGC) have fallen some 45% from their highs set in early October, many investors are still optimistic.

One of the biggest reasons to be excited about the sector is all the unfulfilled demand currently out there. For instance, Alberta Lottery Gaming and Cannabis (ALGC) recently made the decision to delay all current applications to open marijuana dispensaries in the province. The reason? Drug manufacturers just couldn't keep up with demand. In fact, the province revealed it got just 20% of the cannabis it ordered for the government-run website.

As Canopy Growth — and other producers — continue ramping up production, this won't be such a big issue. Analysts project the shortage sticking around well into 2019, which isn't really that big of a deal for long-term investors. After all, it takes time to build the infrastructure needed.

But at the same time, it's easy to be a little disappointed in Canada's largest pot company. In its most recent quarter, the company posted revenue of just over \$23 million. This compares to revenue of \$25.9 million in the quarter before. On the plus side, cannabis inventories were up substantially, and the average selling price was up some 25% versus the same quarter in 2017.

Ultimately, I believe investors looking for a way to play marijuana should take a lesson from the California Gold Rush and buy **Shopify Inc.** ([TSX:SHOP](#))(NYSE:SHOP) over Canopy Growth. Here's why.

Learning from history

We all know the story by now. Tens of thousands of prospectors flooded into California between 1848 and 1855, looking to get their share of riches. Some did get rich — especially early prospectors — but most barely earned enough to get by.

The biggest success story of the time had little to do with panning for gold. Levi Strauss started a dry goods company supplying miners in San Francisco in 1853. Although the popular story of Strauss making his fortune selling jeans to miners isn't true — he didn't get into the pants business until the 1870s — his store in San Francisco did lay the groundwork for his later success.

The lesson here is simple. During a boom, it often pays to invest in the infrastructure needed rather than the product itself. Many of the most successful merchants of the California Gold Rush made their money selling pans and shovels. I believe Shopify will be the big winner in the pot wars doing the same thing.

Shovels for the 21st century

Alberta received close to 1,000 marijuana shop applications from interested entrepreneurs before temporarily suspending applications. This tells us that the business will be very competitive.

Pot is the perfect substance to sell online. It's light, transports easily, and the ordering process is simple. There's still a bit of a stigma surrounding the drug too. Many people might be curious about it, but wouldn't dare set foot in a shop.

This is where Shopify shines. It offers entrepreneurs a one-stop shop for all of their online needs. The company provides software that runs the website, processes payments, manages inventory, and tracks shipping — all for a reasonable monthly price.

Both Ontario and B.C., where provincial governments are running online marijuana sales, awarded Shopify with the contract to run the online sales portal. Most private sellers will also trust Shopify with their eCommerce sales.

The bottom line? This will be a major boon for Shopify. Legalization will also good for producers like Canopy Growth, but that part of the business is plagued with competition. Shopify is the 21st century version of selling shovels to gold miners.

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