



## Has the Bubble Popped? Short Positions Increase on Marijuana Stocks

### Description

The [legalization of recreational marijuana](#) was supposed to be a momentous event for the marijuana industry. However, investors who were expecting to reap the rewards have been sorely disappointed.

For those who have been in the game for a long time, it was easy to see the crash coming. Pot stocks were trading at insane valuations leading up to legalization. Since October 15, the Canadian Marijuana Index has lost 50% of its value. Ouch. I'm sure there are plenty of novice investors who are reeling from the carnage. Despite the recent downturn, [most still aren't cheap](#). It's not surprising then to see that shorts have upped their positions.

### The most expensive pot stocks to short

One of the better gauges of bearish sentiment is to look at companies where the cost to borrow their shares is high. This indicator is useful when the number of shares available to short is low. In such cases, short sellers bid up the borrowing costs to short the stocks. There are usually two outcomes when stocks are the target of short sellers — a continued downtrend or a short squeeze.

After dominating the list in early 2018, pot stocks had slowly disappeared from the most expensive to short list. This all changed with the most recent short report. As of December 12, marijuana companies accounted for eight of the top 20 spots on the list. Of those are some of the most popular pot stocks: **Green Organic Dutchman** (TSX:TGOD), **Cronos Group** ([TSX:CRON](#))([NASDAQ:CRON](#)) and **OrganiGram Holdings** (TSXV:OGI).

### Marijuana stock performance

How have they fared recently? Since the most recent short report, they have all found themselves under pressure. Green Organic Dutchman leads the way with an 18.45% loss, while OrganiGram and Cronos have lost 8.17 and 10.28%. In comparison, the Canadian Marijuana Index has somewhat stabilized, losing only 5% of its value over the same period.

As you can see, the recent short positions have put additional pressure on these three pot stocks.

## Cannabis stock valuation

From a valuation perspective, all three vary widely. None are profitable, so the next best metric to look at is expected revenue. As of writing, Cronos is by far the most expensive of the group, trading at more than 30 times expected 2019 revenue of \$80.13 million.

On the flip side, OrganiGram and the Dutchman appear to be some of the best-valued pot stocks on the TSX. They are trading at a forward P/S of 2.59 and 1.81 on revenue of \$230.24 and \$373.01 million. This compares favourably to the industry's largest players, who are trading at valuations between five and 16 times forward revenue.

## Foolish takeaway

The TSX short data is a very useful tool for investors. Understanding what bearish investors are betting against can help explain short-term price fluctuations. All three pot stocks above are under pressure. That being said, I would not be surprised to see shorts covering their Dutchman and OrganiGram positions given the low valuations. This could result in a potential short squeeze.

### CATEGORY

1. Investing

### TICKERS GLOBAL

1. NASDAQ:CRON (Cronos Group)
2. TSX:CRON (Cronos Group)
3. TSX:OGI (OrganiGram)

### PARTNER-FEEDS

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

### Category

1. Investing

### Date

2025/08/25

### Date Created

2018/12/23

### Author

mlitalien

default watermark