



2 Popular Marijuana Stocks I'd Avoid in Early 2019

Description

The general weakness in marijuana stocks that is currently underway could reverse early next year as recreational cannabis sales results start trickling in mainly by February 2019, but some big names could still get weighed down by company specific factors.

Here are two popular names that could face turbulence in the first quarter of next year.

Aphria

Aphria Inc. (TSX:APHA)(NYSE:APHA) has always been one of the most promising cannabis growth stocks, and its low cost profile and planned production up calling in 2019 could make it one of the most potential winners in the Canadian marijuana space.

However, recent short-seller revelations about the company's questionable acquisitions in Latin America have not only [caused some short-term weakness](#) in the share price, but could result in a string of very damaging securities lawsuits.

Right now, a great number of law firms has been investigating the company and at least 18 U.S. law firms, including that of former Attorney General of Louisiana, Charles C. Foti Jr., and the highly regarded top investor rights attorney Rosen Law Firm have already released investor awareness announcements in an effort to enlist as many complainants as possible.

Some of the best legal minds in the world's biggest equity securities market are up against a young Aphria. The company and certain of its executives are being charged for failing to disclose material information to the investing public between July 17 and December 4 of this year (the class period) in a class action lawsuit filed in New York; legal firms are out to make a killing for their clients.

The deadline for investors to file their lead plaintiff applications is February 4, 2019, and the attorneys are mainly looking to represent investors who have lost at least US\$100,000; some have set a higher minimum loss limit of US\$250,000.

Lawsuits can negatively affect management focus on business plan execution.

I can't estimate how much the company or its implicated senior management may lose in the event that a the aggrieved investors get their way in the legal action, but such a high level lawsuit could result in a top management shake-up and divert the company's leadership's focus from doing their most important job of delivering value for investors.

A shake-up in top management at this critical execution time could be very costly for Aphria, and the negative publicity from potential fraud allegations could leave a serious dent on the company's image. It could take some long months for that bad reputation to be forgiven.

Tilray

Tilray Inc.([NASDAQ:TLRY](#)) stock has been one of the most volatile marijuana investments in 2018 after its share price skyrocketed from an Initial Public Offering (IPO) price of US\$17 in July 2018 to reach an all-time high of US\$300 in September before plummeting to below US\$75 this December.

The stock has somehow cooled off this month, but there could be fresh wide price swings as we enter the new year.

Tilray is a closely held company, with private equity investor Privateer Holdings holding over 80% of all the issued and outstanding shares. The institutional investor's 75,000,000 share stake is still in a 180-day post IPO lock-up period that expires in January 2019.

The lock-up of Privateer's shares could be the biggest reason why Tilray's share price made wild swings due to the limited availability of a public float as retail investors scrambled to get their hands on the marijuana producer's scarce equity units. The lock-up could introduce some unprecedented weakness in the pot stock's market price in two possible ways.

First, Privateer may begin to make a staggered exit on its position and flood the market with a new share supply while increasing the amount of units available to short sellers, and this may introduce significant selling pressure on the ticker.

Second, it won't require that Privateer Holdings start selling for there to be a share price weakness on Tilray, rather, just the market perception that a major investor may sell its stake will be bearish.

That said, could the private equity firm be that reckless as to drive down the share price when it stands to benefit significantly from a higher exit price on its Tilray stake?

Investor takeaway

Earnings numbers will do much of the talking after the new industry's massive potential has been preached, and wild revenue estimates given by several research analysts. Early earnings results will be the major equity price movers during the first half of 2019.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NASDAQ:TLRY (Tilray)

PARTNER-FEEDS

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

Category

1. Investing

Date

2025/08/24

Date Created

2018/12/25

Author

brianparadza

default watermark

default watermark