# Is Going Global the Wrong Move for Cannabis Stocks?

## Description

Many Canadian pot stocks have been fighting for positioning across the globe in the hopes of securing first-mover advantages in key countries. However, I'm not sure that is the correct strategy with so many opportunities in North America alone.

While pot sales totaled $54 million in November, in what was the first full month of recreational pot being legalized in Canada, supply issues have continued to plague the country. Sales weren't all that impressive given how strong the numbers were in October with just two weeks of sales totaling $43 million. It's therefore no surprise that a province like Prince Edward Island was able to claim the highest per capita sales in November, especially since Ontario and B.C. are nowhere near running at full capacity.

With so many supply issues and a country as vast as Canada, it makes one wonder why companies like **Canopy Growth Corp** and **Aphria Inc** (TSX:APHA)(NYSE:APHA) are rushing to stake out positions in South America and other parts of the world. My concern is the strategy, which calls for distracting investors with all these opportunities, meanwhile ignoring the domestic market, which is a lot easier for investors to quantify and evaluate for themselves.



The other big drawback of such a big and global strategy is that it involves a lot of moving pieces and coordination. That also means a lot of expenses will be incurred and creates an easy excuse for companies to explain why they still aren't able to turn a profit despite sales doubling or tripling from the prior year. That's a big reason why I'd avoid investing in pot stocks today, as there's simply too much noise in their financials to be able to evaluate how successful a business is running.

For instance, in Aphria's most recent earnings, the company had an operating loss of $21 million, but came out with a profit of $54 million because of gains on investments. Although sales nearly tripled, operating expenses almost quadrupled. Aphria is a good example of a company that's been trying to do a lot in a short period, which was perhaps one of the reasons outgoing CEO Vic Neufeld decided to call it quits.

The company has been very aggressive in focusing on other markets, which is probably a key reason why their costs have soared so much. The stock has a lot of uncertainty surrounding it, which makes it difficult for investors to gauge whether it's a good buy or not. Unfortunately, it's not that different from others in the industry, as cannabis stocks have been very volatile over the past year. Aphria, however, has been one of the poorer-performing stocks, with its share price losing half of its value over the past 12 months.

### Bottom line

Whether Aphria or any other pot stock, investors shouldn't get distracted with hype about the potential market size in one country or another. Especially in the early stages, it's important to prove that the business model works and that the company can turn a profit first.

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