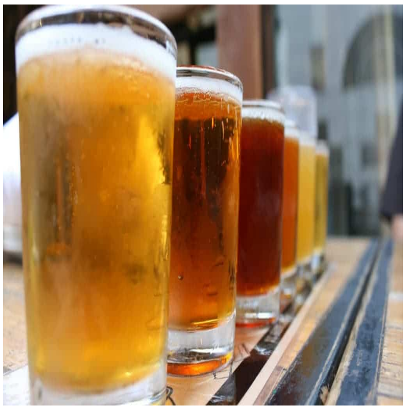

Better Vice Play: Weed Stocks or Beer Stocks?

Description

If there is one absolute certainty about human nature, the appeal of vice would have to be it. In all eras, in all cultures, and in all economic conditions, people persistently partake in indulgences that society is leery of. And, when barriers are placed in their way, they'll go to great lengths to do so: the persistent popularity of dark web markets proves that much.

So-called vice industries — like beer, tobacco, and now marijuana — are among the few sectors that do not suffer major sales drops in recessions. It stands to reason that people seek an outlet for stress in bad times, so the relative lack of income elasticity in these industries makes sense.

The thought of profiting off vice makes many investors wince. But legal, taxed, and regulated vices are positive contributors to the economy, and if we take tobacco out of the equation, it's not universally agreed that they're always bad.

Right now, the TSX is home to many beer and tobacco stocks — many of which have enriched investors considerably over the years. Both sectors offer the possibility of strong returns in poor economic conditions. But apart from that, investing in beer stocks is a completely different game from investing in weed stocks. With that in mind, here are three considerations to keep in mind, so you can decide which is right for you.

Sales growth and future projections

Legal marijuana sales are growing faster than beer sales are. In November, $54 million worth of legal recreational pot was sold in Canada compared to $0 a few months before. The reason for this couldn't be more obvious: legalization. But it's worth bearing in mind that cannabis sales are in an uptrend that beer can't match.

This trend is mirrored in the revenue growth of companies that sell either product. Whereas **Aurora Cannabis's** (TSX:ACB)(NYSE:ACB) revenue grew by 260% in its most recent quarter, **Molson-Coors Brewing's** (TSX:TPX.B)(NYSE:TAP) net sales crawled at just 1.8% year over year.

Value

If Aurora's growth looks like it leaves Molson's in the dust, it helps to remember that beer stocks are generally much cheaper than pot stocks. Whereas Molson trades at 13 times forward earnings and 0.6 times sales, Aurora trades at 36 times earnings and a whopping 137 times sales. Of course, faster growing stocks have higher valuations than slower growing ones, but a 137 price-to-sales ratio is entering truly stratospheric territory. And the same holds true for virtually all well-known marijuana stocks — in some cases, the ratio is actually a lot higher.

Volatility

If you're not a big fan of volatility, beer stocks will serve you better than weed stocks. To return to Aurora and Molson-Coors, the former has a beta coefficient of 1.16, while the latter has beta of 0.5. Aurora's beta is actually relatively low compared to the cannabis industry average: other pot stocks, like **Canopy Growth**, have beta coefficients as high as three. So, beer is less volatile and, in a certain sense, less risky than cannabis; however, cannabis has higher potential returns. As for which is better overall, it depends on the risk/return trade-off you're comfortable with.

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