



Are Pot Stocks in a Bubble? Even Canopy Growth Corp's (TSX:WEED) CEO Thinks So

Description

The marijuana industry has just come off another quarter of explosive growth, and with the initial phase of legalization and extreme stock price weakness behind them, marijuana companies (and stocks) are moving upwards and onwards again.

But are [pot stocks](#) in a bubble?

Despite mounting losses, as expenses and the many uncertainties that the industry faces grow rapidly, pot stocks have exploded ahead in 2019, leaving the **S&P/TSX Index** in the dust.

Canopy Growth ([TSX:WEED](#))(NYSE:CGC), for example, is up 56% year to date, pretty much recovering much of the weakness that the end of 2018 brought. Compare that to the [TSX Index](#), which is up 11%, and we can see the massive outperformance of this stock.

But when even the CEO of one of Canada's biggest marijuana stocks is cautioning investors about a bubble in pot stocks, we need to pay attention. Although he mentions that he is not necessarily referring the Canopy Growth stock, we can do the math.

Canopy is losing money at a feverish pace, as losses continue to mount and as expenses increase dramatically to fund the company's growth plans. For example, in the latest quarter SG&A expenses represented 54% of net revenue versus 43% last year.

While this is to be expected, as the company is embarking on a very aggressive growth strategy, it is nevertheless something investors should watch, as it is falling to the bottom line, reducing earnings and cash flow numbers.

And with so much uncertainty and so many risks going forward, why would investors ignore this and pay up for a company that is currently losing money and that has yet to settle into this new and exciting industry and show us the kind of returns it can generate?

Yes, I am excited about this industry. Yes, I think it has so much potential, and it can provide many

benefits to Canadians.

We all know the projections for this billion-dollar industry, but are these projections too high, and are investors expecting things to happen too fast? Even GMP Securities's analyst has taken the initiative to reduce his recommendation on the stock to a hold and to reduce his target price to \$65 from \$70 previously.

An unclear path to profitability and high investor expectations are certainly to blame for this, even as Canopy Growth has thus far maintained its leadership position, with a 30% market share in Canada.

In summary, investors should be cautioned to diversify their marijuana stock holdings and to take profits and add on weakness, because there is so much stock price movement on sentiment rather than fundamentals, so a little bit of trading around is key to success.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NASDAQ:CGC (Canopy Growth)
2. TSX:WEED (Canopy Growth)

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