RRSP Investors: Should You Ditch Oil for Marijuana Stocks and Renewables?

Description

"It's a long shot, but it might just work…"

How many times have you heard that in a movie? It's a phrase that echoes the devil-may-care attitude of momentum investors, but the idea of swapping tried-and true oil and gas shares for legal weed stocks may seem like a far-fetched fantasy. However, there are several reasons why it's a compelling play, so let's take a closer look at why you may want to invest like an action hero.

Climate change could put a serious dent in your fossil fuel investments

An average widespread warming of an extra two degrees would take serious chunks out of coal, oil and gas, and electric utilities between 2020 and 2030. However, energy bulls (and indeed anyone looking to infrastructure sectors for defensiveness) could offset losses in these areas of investment by switching to renewable energy stocks for higher returns.

Ditching shares in heavily oil-weighted companies such as **Suncor Energy** (TSX:SU)(NYSE:SU) would make a lot of sense in this scenario. Slightly overvalued, and also underperforming the industry in the past year, Suncor Energy is today trading with a P/E ratio of 22.1 times earnings. While its P/B of 1.6 times book is essentially faultless, it's still a touch above the average.

A stable dividend yield of 3.75% is the main reason to keep a ticker like this in one's RRSP, RRIF, or other long-term retirement investment portfolio, and in this case it's made the more palatable by a 20.3% expected annual growth in earnings. One factor weighing against Suncor Energy, however, would be its rising debt levels, from 27.8% five years ago to 39.4% today.

Canadian marijuana is showing some signs of a gravity-defying industry

With one-year returns of 106.8%, Canadian marijuana producer **Canopy Growth** (TSX:WEED)(NYSE:CGC) is more than capable of outpacing the competition. Overvalued by more than $40 a share, it's not for the fainthearted, with a P/B ratio of 2.7 times book indicating as much.

Low debt and a great outlook remain two very good reasons to consider this stock, with a high 108.4% expected annual growth in earnings characterizing the latter facet.

Swapping oil for renewables and marijuana may become a trend

One of the premier alternative energy stocks on the TSX index, **Northland Power** (TSX:NPI) is a solid dividend paying stock with a proven track record. Though it's underperforming on the year with a 3.9% total return that lags the Canadian renewable energy industry's 12.3%, there's still plenty to recommend this stock.

Trading with a P/E ratio of 15.8 times earnings may on the face of it describe a good value buy, wary investors may want to look at other multiples, such as a P/B of 5.3 times book. While comparison with weed stocks may make a 16.2% expected annual growth in earnings look low, it's significantly high for a Canadian energy stock.

The bottom line

While shedding oil as a long-term strategy makes some sense due to its implication in climate change and impact on the environment, retirement investors will have to assess the time frame of their portfolio and adjust accordingly.

The oil industry is solid for the time being, though of course is vulnerable to shifting oil prices. On the other hand, renewables are likely to take over in the future, while weed remains an intriguing choice for long-term investment.

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3. TSX:NPI (Northland Power Inc.)
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