Don’t Waste Your Money on Weed Stocks: Here’s a Better Buy

Description

Marijuana stocks are among the most popular and widely talked about equities on the TSX today. After a busy 2018 that saw significant M&A activity in the marijuana sector and the legalization of marijuana worldwide, weed stocks became the subject of significant media attention. Shortly after legalization hit, a massive bear market in weed stocks began with some companies, such as **Aphria** (TSX:APHA)(NYSE:APHA), losing up to 75% of their value.

This year, marijuana stocks have been on the rise again. However, as we saw last year, marijuana is a highly volatile sector, where big downswings are just as common as frothy gains. It’s entirely possible that top weed stocks will be worth twice as much as they are now in a month. It’s also entirely possible that they’ll be worth half as much.

Marijuana is a new industry with no solid long-term trend you can count on. In just a minute, I’ll be sharing a much more dependable long-term investment you can take to the bank. In the meantime, let’s take a look at exactly why weed stocks are so risky.

The problem with weed stocks

There are two big problems with marijuana stocks: competition and expenses. Marijuana is essentially a commodity that anybody with enough capital can produce, which leads to a highly competitive market that drives prices down. That’s exactly what we’re witnessing in Colorado. In Canada, weed prices are actually up somewhat, but this is mainly because the new legal recreational cannabis is more expensive than black market cannabis, which was previously the only option.

Aphria actually said in a recent earnings report that its selling price per gram of recreational cannabis had gone down. Assuming this trend continues, then cannabis companies will probably see falling margins and earnings misses.

Costs are another big concern here. While cannabis producers are getting somewhat leaner in their growth operations, expenses like marketing, acquisitions and share-based compensation are rising higher and higher every quarter. If you combine that with a highly competitive marketplace, you’ve got a dangerous mixture.

So, if marijuana stocks are too risky to be messed with: what should you buy instead?

The iShares S&P/TSX 60 Index Fund (TSX:XIU)

The **iShares S&P/TSX 60 Index Fund** aims to replicate the performance of the 60 biggest TSX stocks. It currently consists of heavy hitters in industries like banking, tech, energy and utilities. Like the full TSX, it has the benefit of diversification. Unlike the whole index, however, it isn't dragged down by underperforming small caps that could go bust at any minute. As a result, it has a slightly higher long-term return. Not only that, but cannabis stocks have recently been making their way on to the **TSX 60**, so if you want a little weed exposure without all the volatility, this index fund might be just what the doctor ordered.

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1. Cannabis

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