



## A Beginner's Guide to Investing in Marijuana Stocks — Canopy Growth (TSX:WEED) and Aurora Cannabis (TSX:ACB)

### Description

There are hundreds of articles about marijuana stocks published every day, and half the articles urge investors to jump in before it's too late. The other half stress caution. Yet, too much information can be overwhelming and confusing.

What's an investor to do? Let's start by understanding the industry.

### Pot stocks are relatively new to the TSX

Five years ago, Tweed Inc became the first marijuana stock to begin trading on the **TSX Venture Exchange**. At the time, the legalization of recreational pot seemed unlikely under Canada's conservative government.

However, times changed quickly. As Canada's government became more progressive, so too did the idea of legalizing recreational marijuana. Tweed Inc became **Canopy Growth Corp** ([TSX:WEED](#)) (NYSE:CGC), the first pot company to list on the TSX.

### Major players in the industry

Two of the most recognized names in the industry are Canopy and **Aurora Cannabis Inc** ([TSX:ACB](#)) (NYSE:ACB), with quarterly revenues of \$83 million and \$54 million, respectively. Other players include **Hexo** and **Cronos**, with quarterly revenues of \$13 million and \$6 million, respectively. While some companies are involved in the production and distribution of pot for both recreational and medical use, others focus on one aspect of the marijuana industry. **Aphria**, for example, specializes in cannabis for medical purposes only.

### Pot stocks are volatile

Aurora Cannabis began trading on the TSX in July 2017. The stock traded in the \$3 range for most of the year, but took off in late 2017 to trade at close to \$13. Just a few months later and shortly before the legalization of recreational cannabis in Canada, the stock had shed half its value to trade around \$6. Then in January 2018, three months after legalization, the stock was back to the \$12 range, where it is still trading at writing.

The stock price of Canopy has also shown volatility. In the past five years, the stock has been as low as \$2 and as high as \$67. The stock price at the beginning of 2019 was below \$40, but the stock has soared this year to its current price of \$65.

## **Growing appetite in the emerging beverage and consumables market**

The appetite for pot-infused beverages and edibles is growing rapidly. There is massive potential for [weed companies to partner with established food and drink manufacturers](#) to cash in on this trend.

Last week, Sproutly and Moosehead Breweries announced a joint venture to develop, produce and market all-natural cannabis-infused beverages. This partnership between Canada's oldest independent brewery and Sproutly, a Canadian company that produces water-soluble cannabis solutions and bio-natural oils, makes sense. The partnership is indicative of the gravitation between complementary businesses and a sure sign of things to come.

## **Potential upside to investing in marijuana stocks**

The expanding U.S. market could benefit Canada's pot companies. Despite the reluctance in the U.S. to federally legalize recreational marijuana, the stigma attached to medical marijuana seems to be shrinking. Currently, there are 33 states plus the District of Columbia that allow marijuana to be purchased for medical use. There are 10 states plus the District of Columbia that have legalized recreational pot.

In addition to the U.S., more countries are allowing the use of cannabis-related products for medicinal purposes. Germany recently began offering health insurance coverage for medical pot. This will likely be a trend going forward as more countries embrace legalizing pot for medicinal use.

## **Potential pitfalls to investing in Canadian pot stocks**

Although Canada is the world's largest producer of cannabis by market cap, other countries are making headway. Competition from countries where pot can be grown significantly cheaper, particularly in Central and South America, is heating up.

The limited world marketplace is also concerning. There are still relatively few countries in the world where recreational pot use is legal. The objections to legalizing cannabis can be traced to lack of understanding of the health risks and moral objections. While there are ongoing studies that may abate the health concerns, any moral objections will take longer to overcome.

## Bottom line

Most investors drift toward industries they understand and products with which they are familiar. Weed stocks represent uncharted territory for many would-be investors.

As with any industry in its infancy, there is a potential for massive returns. However, the fluctuating stock prices and the fast pace of regulatory changes in the industry may be unsettling to some investors, while others may face moral convictions.

Investors expect some ups-and-downs in their equity holdings. But pot investors be warned: this ride may be wilder than most.

### CATEGORY

1. Cannabis Stocks
2. Investing

### TICKERS GLOBAL

1. NASDAQ:ACB (Aurora Cannabis)
2. NASDAQ:CGC (Canopy Growth)
3. TSX:ACB (Aurora Cannabis)
4. TSX:WEED (Canopy Growth)

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