



Bitcoin and Marijuana: Profiting From the Latest Market Bubble

Description

Despite tighter regulations, market bubbles keep developing. Even the global financial crisis of a decade ago, when the U.S. credit bubble collapsed triggered the worst economic catastrophe since the Great Depression, has failed to deter speculators. Many less sophisticated investors were swept up in the hype surrounding Bitcoin, which went on a tear through 2017 and then collapsed in 2018 following a typical bubble trajectory with a wave of euphoria sweeping markets as pundits claimed that cryptocurrencies would revolutionize transactions.

By December 2017, Bitcoin peaked at over US\$17,000, or more than 21-times its value a year earlier. Since then its price has collapsed, bottoming at just over US\$3,000 before recovering to reach over US\$7,500. Those extreme price movements are archetypal of asset bubbles, and it appears that Bitcoin has entered the final blow-off phase, with claims of a new currency paradigm failing to coalesce.

Nevertheless, those who bought Bitcoin at the start of 2017 or earlier and sold it before the start of 2018 reaped tremendous profits, but for those who bought at the peak of the hype, it's been a [painful lesson](#). The latest market bubble is marijuana stocks, with the industry possessing all the [classic hallmarks](#). **Canopy Growth**, which joined the blue chip **S&P/TSX 60 Composite Index**, has soared by 704% over the last two years, while market darling **Cronos Group** ([TSX:CRON](#))([NASDAQ:CRON](#)) has gained 913%.

This indicates that marijuana stocks have entered the mania phase in which media attention builds, claims of a new investment paradigm emerge and obsession grips investors propelling values ever-higher. While there is a disconnect between market value and reality, there are signs that cannabis stocks have farther to run before collapsing. Even at this point in the cycle, knowledgeable investors can reap generous profits as Bitcoin demonstrates.

The valuation ratios of marijuana stocks appear stretched. Canopy is trading at 139 times revenue, whereas wonder-stock Cronos is valued at 379 times sales. It's difficult to see how companies can close such wide valuation gaps, despite analysts claiming that the global cannabis market will expand at a compound annual growth rate (CAGR) of 35% to reach US\$146 billion by 2025.

If we take Cronos' first-quarter 2019 results, annualize them and apply a 35% CAGR over the next six years, its current market cap will still be a worrying 46 times 2025 net revenue. Even if Cronos can expand sales at such a rapid clip, it still appears vastly overvalued, especially in comparison to companies operating in comparable industries. Pharmaceutical company **Pfizer** is trading at four times revenue and tobacco giant **Altria's** market cap is five times sales.

There are also plenty of headwinds ahead for Canada's marijuana companies. While the clinical benefits of cannabis are widely recognized, the volume of applications is unlikely to grow exponentially because of the need to complete extensive clinical trials and growing regulation. Recreational use of marijuana won't surge for the foreseeable future.

After decades of prohibition, there is still considerable stigma attached to its consumption. That, combined with a lack of preparedness among authorities for regulating and taxing its use, makes marijuana's legalization problematic in many countries.

Competition is expanding at a fever pitch in much the same way that initial coin offerings exploded when Bitcoin reached record highs. In 2017, it was estimated that there were over 3,500 legal U.S. wholesale cultivators. That number will soar if the U.S. government legalizes cannabis, which could occur sooner than some pundits believe.

Marijuana is categorized as a schedule one substance, ranking it above more damaging narcotics such as cocaine, meaning that it has no medical usage. However, for 2019 the U.S. DEA quintupled the volume of cannabis that can be legally cultivated for research purposes. There is also pressure on Congress to regulate its use, with around two-thirds of U.S. states having already approved marijuana in one form or another.

Nevertheless, it may be some time before valuations collapse, particularly when cultivators like Cronos are reporting robust earnings growth. For the latest quarter, net income soared to \$428 million compared to a \$1 million loss a year earlier. Cronos also attracted a \$2.4 billion investment from tobacco giant Altria.

There are signs that tobacco companies will cut deals and acquire cannabis cultivators as rising regulatory and health pressures make their products unmarketable. For those reasons, Cronos will rise in value as the hype surrounding legal marijuana cultivation and consumption builds.

CATEGORY

1. Cannabis Stocks
2. Investing

POST TAG

1. Cannabis

TICKERS GLOBAL

1. NASDAQ:CRON (Cronos Group)
2. TSX:CRON (Cronos Group)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Cannabis Stocks
2. Investing

Tags

1. Cannabis

Date

2025/08/26

Date Created

2019/05/23

Author

mattsmith

default watermark

default watermark