



## 3 Reasons to Keep Marijuana Out of Your TFSA

### Description

Since the cannabis legalization bill was first introduced in parliament, stocks in the sector have been on a tear. Bringing the recreational and medical cannabis sector out of the shadows and into the mainstream has helped create an industry that could be worth \$200 billion by the end of the decade.

Many of these stocks have been millionaire-makers over the past few years and now trade at multi-billion dollar valuations. However, it might be too late for investors to enter the space now. Here are three reasons that savvy investors with a healthy aversion to risk should keep cannabis stocks out of their tax-free savings account (TFSA) portfolios.

### Overvaluation

Valuation is the key driver of performance in the stock market. Regardless of how promising the industry is or how well some of the businesses seem to be performing, if the price is too high, investors will miss out on decent returns.

In the case of marijuana, many of the leading stocks already trade at multiple times the industry's global revenue. It's worth noting that global revenue is a fragment of the overall black market, but the current valuations have already priced in a future where legal sales have crowded out the illegal market across the world.

Canada's experiment with legalization over the past few months could indicate that this future is further away than it seems.

### Resilience of the black market

In his 2015 election campaign, Justin Trudeau promised to eradicate the "criminal organizations, street gangs and gun-runners" with his sweeping legalization drive. However, recent reports suggest that the black market for cannabis is still thriving across the country.

The rushed roll-out, strict rules, tight supply, and high prices have made legal marijuana products pale in comparison to their illicit counterparts. Illegal drugs off the streets are still more readily accessible

and cheaper than the government-sanctioned ones.

Although this doesn't undermine the investment thesis for cannabis stocks, it does indicate that the sector faces serious challenges to global adoption and value creation.

## Slow international adoption

The domestic Canadian market is simply too small to sustain the ambitions of the local cannabis producers. According to cannabis research firm Brightfield Group, Canada's legal pot market will be worth just \$5 billion by 2021. Meanwhile, the combined market valuation of all 10 major marijuana stocks is \$43 billion.

Although there are signs that Canadian cannabis firms are poised to go global and dominate the most important market for the sector – the United States – tight regulations and drug enforcement frameworks could take years or even decades to dissolve.

The process will be a lot slower if Canada's experiment to raise tax revenue and eradicate the black market fails, which means investors may have to wait longer for a payout.

## There's one exception

Despite the gloomy picture I've painted here, I still believe the market's most valuable stock is [driven by fundamentals](#) and is worth a closer look. Indeed, 25% of **Canopy Growth's** ([TSX:WEED](#)) (NYSE:CGC) market capitalization is held in pure cash on the book. Tweed is already a well-known brand and Canopy has more supply agreements and production capacity than any of its rivals.

The company's partnership with beverages giant **Constellation Brands** gives it a robust platform for future growth and protects it if the market turns sour. Savvy moves to diversify the business overseas have already started delivering results.

In fact, a market downturn could be the perfect opportunity for Canopy to acquire more assets and bolster its lead in the sector. I believe investors keen on adding marijuana exposure should consider this market leader over any of its rivals.

### CATEGORY

1. Cannabis Stocks
2. Investing

### TICKERS GLOBAL

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

### PARTNER-FEEDS

1. Msn
2. Newscred

3. Sharewise
4. Yahoo CA

**Category**

1. Cannabis Stocks
2. Investing

**Date**

2025/09/20

**Date Created**

2019/06/11

**Author**

vraisinghani

default watermark

default watermark