



Should You Bet on a Rebound in Weed Stocks?

Description

Cannabis stocks are down significantly in the past two months and investors are trying to decide if the pullback presents a good opportunity to buy marijuana stocks in their [portfolios](#).

Growing pains

Every new industry goes through periods of volatility, and the rapid rise of the cannabis sector from penny-stock outliers to mainstream media darlings with billion dollar market caps is one for the record books.

The story continues to unfold and there will likely be a handful of big winners and many more losers once the dust settles and the industry begins to mature.

In Canada, the launch of the recreational market has not gone as well as the federal and provincial governments across the country had hoped. Tax revenue estimates have come down significantly as a robust black market continues to thrive amid supply shortages in the legal weed market. Sales and distribution problems haven't helped.

The government is planning to legalize the edibles market later this year. That might spark a new rally in Canadian [cannabis stocks](#) amid huge expectations for the cannabis-infused drinks segment. On the snacks side, one concern could be a public backlash as reports emerge that emergency rooms are seeing an alarming number of kids who have accidentally consumed marijuana products they found in the house.

Why any parent of young kids would have marijuana consumables in the house in the first place is probably the first question people should ask. Nonetheless, the government and pot companies are at risk of taking the heat for toddler overdoses, and the wave of pretty packages containing cannabis-laced candies that will likely hit the consumer market next year is motivating health workers to raise the alarm.

Big picture

Canada is small potatoes when it comes to the overall pie that cannabis producers are targeting. The global medical marijuana market is arguably the opportunity investors should consider when deciding which stocks to pick as a play on the industry.

Canopy Growth ([TSX:WEED](#)) (NYSE:CGC) is widely viewed as the leader at this point in the game. The company has established distribution and / or production operations in a number of key markets including Europe and South America, and is poised to take an early lead in the United States if marijuana is legalized at the federal level.

How?

Canopy Growth's deal to acquire U.S.-based Acreage Holdings could prove to be a major win for Canopy Growth in the country. Acreage already has an established presence in 20 states where pot sales are allowed locally. The deal would see Canopy take 100% of Acreage when marijuana is legalized federally.

Should you buy today?

The entire cannabis sector still appears heavily overvalued based on most traditional valuation metrics.

Canopy Growth is still not profitable, yet has a market capitalization of \$18 billion. At the time of writing the stock trades at \$52 compared to about \$70 near the end of April. Last year it went from \$32 in July to \$73 in October before dropping back to \$36 in late December. Given the recent track record, investors should expect ongoing volatility to continue.

As such, you have to be a long-term cannabis bull to buy any of the stocks at this point. If you are in that camp, owning one of the largest players is probably the way to go and Canopy Growth might be the best bet. I would keep the position small, however, and probably wait for confirmation the recent pullback is complete before taking a bite.

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1. Cannabis Stocks
2. Investing
3. Stocks for Beginners

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1. Cannabis

TICKERS GLOBAL

1. NASDAQ:CGC (Canopy Growth)
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aswalker

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