



Alert! Are Cannabis Stocks a Bull Trap This Summer?

Description

Back in mid-April, I'd [warned investors](#) about the cannabis sector, as we awaited the next round of earnings from several of the top producers. As expected, earnings were a mixed bag for producers like **Canopy Growth** ([TSX:WEED](#))(NYSE:CGC) and **Aurora Cannabis** ([TSX:ACB](#))(NYSE:ACB). Overall, recreational sales have slipped in 2019. This is jarring after the hype surrounding recreational legalization.

Horizons Marijuana Life Sciences ETF aims to track the performance of the North American Marijuana Index. Shares of the ETF have dropped 13% over the past three months as of close on July 17.

A bull trap is a false signal that shows a stock or index has reversed and is now headed upwards. Some of the top cannabis stocks on the TSX have shown signs of a bounce back after succumbing to steady declines since the middle of spring. Is this a potential trap that investors should avoid in the summer?

The crisis at **CannTrust** has dealt a significant blow to the broader industry this summer. The company was caught selling cannabis that was produced in unlicensed facilities. This brought on a Health Canada probe, and CannTrust suspended the sale of its cannabis products last week. Predictably, the stock has been slaughtered in the wake of this massive oversight. Shares had plunged over 60% over a three-month span at the time of this writing.

This sector has routinely rewarded investors who have been willing to buy the dips and bet on positive sentiment. The cannabis industry is posting attractive growth on a global scale, but the way the rollout has been handled on the domestic front has left a lot to be desired. Aurora CEO Terry Booth hurled sharp criticism at Ontario and British Columbia governments in late 2018 because of their [handling of cannabis retail](#).

Failure to launch

Statistics Canada recently revealed in a quarterly report that there is a growing price chasm between

legal and illegal cannabis. It reported that the price gap is as high as \$4.72 per gram on average. Supply problems have plagued retailers, but provinces like Ontario have also been slow to act in pushing for brick-and-mortar stores.

Canada's push for recreational legalization has been marred by indecisiveness, rigidity, and a failure to emulate established frameworks that were successful in U.S. states like Colorado and Washington. Logistical issues have contributed to this setback, but this excuse will not last, as production ramps up for top LPs.

So, where does this lead investors as we look ahead to August? We will see producers like Canopy Growth and Aurora dramatically increase their production capacity into the new year. As far as valuations are concerned, both are tempting targets. Shares of Canopy Growth had an RSI of 35 as of close on July 17, which puts it just outside technically oversold territory. Aurora stock briefly fell into technically oversold territory late last week but has since enjoyed a small rebound.

Top cannabis stocks are as volatile as ever, but the upside in playing these equities has declined dramatically since late 2018. There are troubling headwinds in the sector right now, which is why I'm not jumping to buy the dip in the top stocks in this sector right now.

CATEGORY

1. Cannabis Stocks
2. Investing

POST TAG

1. Cannabis

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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Date

2025/08/26

Date Created

2019/07/20

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