Analysis: The Market Is Looking Overvalued

Description

A bull market usually gives rise to speculations that the stocks trading on major exchanges like the Toronto Stock Exchange (TSX) are overvalued. When signs of volatility appear, some predict a meltdown or a market crash. Panic ensues, and investor confidence erodes. But the TSX has been enjoying a good run this year.

The most active stocks are touching new highs or new lows. You hear market observers talk about hot stocks, dividend stocks, overbought stocks, and trending stocks. If you think the TSX is looking like a little overvalued, it may be because some stocks are overvalued.

Hyped weed stock

The cannabis sector has gained prominence prior to and after Canada enacted the law legalizing adult-use recreational marijuana. The industry as a whole can potentially produce $5 billion in sales. With such outlandish projections, investors are tantalized.

Every weed stock is seen as a worthy investment with once-in-a-lifetime earning opportunity. In the early stages of the hype, any stock you pick has strong growth potential. Investors' appetite intensifies whenever new acquisitions or plans are revealed by the cannabis producers.

Cronos Group is a popular cannabinoid (CBD) company, but this weed stock seems utterly overvalued. It doesn't make sense that a $6.58 billion marijuana producer can only project a maximum of 117,500 kilograms annual production capacity.

Green Organic Dutchman, with a market cap of $888.95 million, is capable of producing 200,000 kilograms annually. **HEXO** is four-and-a-half times smaller, but the potential annual peak is only 9,500 kilograms short of CRON's.

You'll be more skeptical if you know that profits will be elusive in 2020. Significant profits will come, but the time frame is indeterminable. The company can scale with derivative products with higher profit margins. But that will start by December this year. Snags and hitches will emerge before this new market stabilizes.

Overrated tech stock

Some investors are wary about **Descartes Systems Group** (TSX:DSG)(NASDAQ:DSGX), because it's difficult to understand the company's valuation. That may be the reason the stock has fallen below $50 toward the latter part of June.

With good acquisitions in the logistics software space, revenue has picked up but has not been as stellar as anticipated. Hence, other analysts are reviewing Descartes on a different angle. The ROE over the last 12 months is 5.8%, which is lower than the 18% ROE average in the software industry.

Investors would tend to pick a stock in the same industry with a higher ROE. If that is the basis, Descartes is trading at a premium valuation. The company is an industry disruptor and provides high-quality services. Perhaps that is what's reflected in the high stock price.

Whether Cronos Group and Descartes Systems Group are overvalued stocks, that's not representative of the TSX. Conversely, there are undervalued stocks. The final decision to invest in an "overvalued" market rests with the investor. But with the brisk trading activities on the TSX, you can say there are great value stocks for investors.

CATEGORY

1. Cannabis Stocks
2. Investing
3. Tech Stocks

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NASDAQ:DSGX (Descartes Systems Group)
2. TSX:DSG (The Descartes Systems Group Inc)

PARTNER-FEEDS

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

Category

1. Cannabis Stocks
2. Investing
3. Tech Stocks

Tags

1. Editor's Choice

Date
2025/08/22
Date Created
2019/07/23
Author
cliew