2 Tanking Weed Stocks to Sell in August

Description

It's a scorching-hot summer with record-high temperatures being recorded around the world. But don't tell that to weed stock investors, who've been left out in the cold after a series of disappointing earnings reports and regulatory scandals. In the past two months, all major producers have seen their share prices fall, while marijuana stocks as a class are down about 11%.

With that said, the weed industry's current woes aren't affecting all stocks equally. While some are way down, others are still up for the year, and many are actually in fairly good shape compared to where they were last fall. However, there are definitely some major weed producers that are struggling right now. The following are two you can consider selling in August.

Canopy Growth

Canopy Growth (TSX:WEED)(NYSE:CGC) is the world's largest marijuana producer by revenue and market cap. It spent the first quarter of this year rising precipitously before falling off after a disappointing earnings report, which its largest shareholder said it was "not pleased" with.

In its most recent quarter, the company lost $335 million, which was around 300% of revenue for the same period. All this points to a company that has a hard time getting costs under control, and the fact that share-based compensation was a huge part of the cost spike didn't inspire confidence in investors. As a result, Canopy shares have been tanking, down 15% since the beginning of June and 38% since their peak closing price on April 29.

Granted, such volatility is normal for weed stocks, and Canopy has recovered from much bigger downturns. But the fact that most investors are taking the company's latest news poorly doesn't suggest good things to come for the stock in the near future.

CannTrust Holdings

CannTrust Holdings (TSX:TRST)(NYSE:CTST) has been the biggest marijuana loser in July, falling over 55%. The reason for TRST's most recent selloff is the Health Canada regulatory scandal, which saw a hold put on 5000 kilograms of the company's weed. So far, CannTrust is equipped to deal with these issues. However, it's telling that the company put an additional, voluntary hold on 7,500 additional kilograms of weed. It suggests that the company believes there may be more problems coming, and that it's trying to prepare for them in advance.

The Health Canada drama isn't the only reason for being skeptical of CannTrust either. An additional problem is that the company recently began losing money, when previously it had been one of the most consistently profitable marijuana producers. In past quarters, CannTrust managed to post positive net *and* operating income but more recently swung to losses after deciding to invest aggressively in growth. Growth spending can earn a company more money in the long term, but that's true of many cannabis companies.

CannTrust's profitability was previously a big selling point for the stock, and with that out of the picture, it's not clear why you'd buy TRST over any other weed company.

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Date
2025/08/26
Date Created
2019/08/01
Author

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