Are These Cannabis Stocks too Risky for Your Pot Portfolio?

Description

Cannabis investors looking for fringe companies to stack shares in have continued to eye **CannTrust** (TSX:TRST)(NYSE:CTST) for its combination of severe devaluation and the possibility of a buyout.

Having shed around 60% in barely a full month of trading, pundits are divided about what could happen next for the disgraced grower, with everything from business combination to a full sale of assets on the table.

On the one hand, a total license revocation could sink the stock entirely, while its outdoor production operation – with 200,000-kilometre capacity – could make the company an acquisition target.

Aside from the extreme low cost of this stock and the admittedly very real prospect of a buyout, though, the loss of investor confidence makes this embattled stock a high-risk investment for the hardcore cannabis fan or speculative value investor only.

Are outdoor growers too high risk?

Another Canadian cannabis company with outdoor cultivation rights, and currently in far better shape than CannTrust, is **WeedMD** (TSX:WMD). Only 12 other growers have been awarded this type of license, with the majority of Canadian weed cultivation going on behind closed doors.

While WeedMD's operation is much lower capacity than CannTrust's at less than 50,000 kilos, over half of that is due to be harvested this year from previous asparagus fields.

Outdoor sites are cheaper to run than warehouses, too, meaning that WeedMD's bottom line is already healthier than a warehouse-heavy operation. There's also the argument that the product is of a higher grade if it's grown outdoors.

This should technically mean that a higher per gram price can be commanded from connoisseur consumers, while overheads are automatically lower: The logical result is a higher profit margin.

A good harvest could make for a strong investment

Growing outdoors isn't without its own risks, however, with everything from pests to crop disease to a harsh winter or drought conditions carrying the potential for an impacted harvest.

WeedMD is running the gauntlet by balancing a gung ho outdoor growing strategy against the benefit of a lower hydro bill. Indeed, even the granting of an outdoor production license doesn't mean other companies are necessarily going to use them, and dependence on this method could prove a risky venture.

Up 22%, WeedMD's outdoor growth strategy is paying off with investors. As with the biosynthesis angle being eyed by other cannabis growers, anything new and novel in the marijuana space is attracting speculative investment.

This trading phenomenon makes sense: The sector is new and nobody knows which area of it will end up having market dominance. From outdoor growing to synthetic production to edibles, any area of the cannabis spectrum could win out.

The bottom line

WeedMD has adopted an outdoor growing strategy – but is it less of a risky play than getting invested in a former competitor? While a cautious investor would steer clear of CannTrust unless extreme devaluation and the prospect of a buyout or last-minute partnership particularly appeals, other speculative plays exist that could reward traders with upside.

If WeedMD gets a good harvest this year and can translate its outdoor growing strategy into solid sales, its share price will rise appreciably.

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