



Cannabis Stocks: the Future Is Medical

Description

For a long time, I have been down on cannabis stocks. I have looked only to their poor earnings, the hype surrounding them, and the recreational aspect of the products.

I am still not convinced that they will be able to be competitive on a recreational level due to the ease with which the product can be replicated by individuals and smaller companies as well as the moral implications of selling narcotics.

But there is one aspect of cannabis which has recently gained legitimacy in my mind, and that is the utilitarian value of their medical effects.

My relatively recent turnaround in this department has come as a result of a close friend that had developed an illness that was not responding well to conventional treatments.

I accompanied this person to the hospital, when they asked whether cannabis medications were a potentially powerful treatment for an otherwise untreatable disease. I then learned of the serious possibilities that cannabis companies offer in the world of medicine.

Positive support for medical marijuana confirmed my blossoming belief in the medical benefits of cannabis products.

My search began by finding companies that were focused largely on their medical business. This proved to be quite difficult, as most major companies had a recreational aspect to their businesses.

Where to invest

These are not investments that I can condone, as of yet, on a valuation basis. They are still in the early stages of developing as an industry. Therefore, it might be a good idea to [invest in a bundle](#) of stocks like the **Horizons Marijuana Life Sciences Index ETF** ([TSX:HMMJ](#)).

This will help you to continue to own some of the winners, as it is highly likely that many stocks that seem like good investments today will not be around in the future.

It has a management expense ratio of 0.75%, so it is not cheap, but the comfort in owning a basket might be worth the price.

If you are convinced that you want to take a swing at an individual stock, **Aurora Cannabis Inc.** ([TSX:ACB](#))(NYSE:ACB) is another alternative.

Its products are primarily medical at the moment, which is exactly what I would like to see in a company. Trading at a forward price to earnings of 36 and a price to book of 2, it's not a cheap stock, but it is on the right track.

Aurora has a three-year compound annual revenue growth rate of 566%, which is pretty stunning. Of course, the growth rate largely has to do with the fact it had barely any revenue to speak of a few years ago, but it is still impressive.

It possess a diversified customer base, much of it in medical marijuana, serving 25 countries worldwide. Unfortunately, the company is still burning cash.

But as fellow Fool contributor David Jagielski [recently reported](#), these earnings compare to pre-legalization reports. Future earnings may tell a different story.

Medical marijuana is for real

As I mentioned earlier, I was not a fan of cannabis companies. From a valuation standpoint, I still am not overly enthused and am not a fan of smelling their recreational product's fumes while walking around.

But I have become aware of the value, even the necessity, of cannabis products as a medicine. This thought has been confirmed by high-level medical professionals as I delved deeper into them as an alternative to traditional medicines.

While my search has not yet revealed a purely medical-focused company, I believe that investing in Aurora's products or through the HMMJ ETF are worthwhile provided you can stand the volatility.

While I'm still in the early stages of looking at these as an investment and have not yet purchased any myself, the potential of cannabis and its medical future is enough motivation to look at building a small, early position.

If you do decide to do so, be prepared to ride the volatility while the sector continues to go through its pioneering phase.

CATEGORY

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1. NASDAQ:ACB (Aurora Cannabis)
2. TSX:ACB (Aurora Cannabis)
3. TSX:HMMJ (Horizons Marijuana Life Sciences Index ETF)

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