



Investing in Marijuana Stocks? Here Are 5 Things You Need to Know

Description

Marijuana stocks took a huge hit this past Wednesday, as the **Horizons Medical Marijuana Life Sciences ETF** (which tracks the sector) fell 5.87% in a single day.

The day was a bad one for the **TSX** and for stocks worldwide, but weed stocks were hit worse than most: the TSX fell just 1.86% on the same date.

Between the **CannTrust Holdings Inc** (TSX:TRST)(NYSE:CTST) scandal and the weed industry's continued profitability problem, things are looking pretty grim weed stocks. If you're considering buying any, you should keep the following five facts in mind.

Weed stocks are extremely expensive

Marijuana stocks are generally extremely expensive as measured by price-to-sales ratios. Many of them are trading at over fifty times sales, and even CannTrust—[the cheapest stock in the industry](#)—costs 7.31 times sales.

Of course, marijuana stocks are growing revenue at a breakneck pace, which could arguably justify steep valuations. However, as we're about to see, that revenue growth doesn't necessarily bring profit along with it.

Most of them aren't profitable

Marijuana stocks generally tend to run huge net losses quarter after quarter, and in some cases the losses just keep growing. **Canopy Growth Corp** recently posted a \$1.3 *billion* dollar loss.

That loss was mostly due to the extinguishing of warrants; however, even without that factor, the company still lost \$123 million from regular operations.

They're facing regulatory issues

What won't help an unprofitable company turn things around? A ban on selling its product. Unfortunately, that's exactly the scenario many weed vendors are facing, after Health Canada put a hold on 5000 kilograms on CannTrust's weed after the company was caught growing in unlicensed rooms.

Recently, Health Canada found the company to have been growing weed at [yet another unlicensed facility](#), and there's no telling how many more could be uncovered.

Black market pot is cheaper than legal weed

Another big issue weed stocks face is competition from black market dealers. According to a Statistics Canada survey, black market weed is about \$3.6 per gram cheaper than the legal stuff, and in some provinces, it's easier to find too.

As long as this price gap remains, legal pot will bleed customers to black market dealers, which could hurt long term results.

The weed market is extremely competitive

A final fact that marijuana stock investors should know is that the industry is extremely competitive. Although there is some brand differentiation among marijuana strains, weed is mostly an interchangeable commodity, with more and more vendors getting into the space every day.

This makes it hard for any company to acquire truly dominant position in the market, and can lead to downward pressure on prices.

Canopy, for example, saw its selling price per gram decline from \$8.54 to \$7.56 in Q1—despite the fact that the prices paid by end consumers are rising. None of this is a recipe for massive profits — and it could even spell more pain to come.

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