



Cannabis 2.0 Is Ready to Supercharge These Stocks

Description

Cannabis stocks are the wild west. While there's early optimism (plus plenty of pessimism), no one is entirely sure what the future will look like. The regulatory environment is quickly improving, but the future pace and scale is still uncertain. How the market will form and which companies will win also remain unclear.

What we *do* know is that many cannabis investors have made fortunes with their stock picks. You could have doubled or tripled the value of your investment several times over by purchasing stocks like **Green Organic Dutchman Holdings** and **Canopy Growth**.

Recently, however, cannabis investors are *losing* their fortunes. Over the past six months, the stocks listed above have lost between 20% and 40% of their value. The period of over-exuberance is over. If you're thinking about jumping in, now is your chance.

Hype cycles are real

Most investors are familiar with the term "hype cycle." This methodology was created by Gartner to chart how a technology will evolve over time. The cycle itself is standardized, but where you place a technology on the chart is what matters. Gartner currently lists quantum computing, 5G technologies, and deep neural nets near the top of the hype cycle. The trick is to *not* buy at the top of the cycle where valuations are highest. Instead, you want to buy *after* peak expectations have been met.

For example, Gartner places "smart fabrics" and "augmented reality" in the expectations trough—that is, these technologies have already hit peak expectations, and now the public is undervaluing their potential. Compare how many times you've heard about quantum computing or 5G technologies with the popularity of smart fabrics. I'm sure you'd agree that the former have more hype than the latter. But that's the point — people underestimate the impact of a technology in the moments before they go mainstream.

While cannabis isn't a traditional technology, it's following the standard hype cycle curve. For years, even decades, serious investors and market analysts ignored the industry's potential. Only when

widespread legalization efforts began bearing fruit did the industry garner respect.

Today, nearly every major research institution has analysts covering cannabis stocks. When they deployed coverage, the stock prices of many cannabis producers skyrocketed. Companies that never generated even \$1 in revenue were trading at \$1 billion market caps.

As with any other hype curve evolution, cannabis stocks then took a dive. Shares of Canopy Growth and Green Organic Dutchman are down more than 40% over the last 12 months. Analysts have cooled quickly. Ryan Macdonell of GMP Securities called Canopy Growth's latest quarterly results "lacklustre." Green Organic Dutchman recently missed revenue expectations by nearly 50%! If you're looking to buy low, the time is getting close.

Cannabis 2.0

According to Barron's, Canada will "allow producers to add vapes, edibles, beverages, and the popular CBD to their sales of the dried flower" by the end of this year. Many analysts expect this to add billions of dollars to the industry in new sales. Importantly, many of these products are higher margin, helping to stave off eventual [commoditization](#) of raw cannabis.

Both Canopy Growth and Green Organic Dutchman have been preparing to take the Cannabis 2.0 opportunity by storm, even though the market is now undervaluing the potential of these value-adding products. It'll be a longer road now that the initial hype cycle has passed, but patient investors can now capitalize on falling expectations.

CATEGORY

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2. Investing

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