



Cannabis Stocks vs. Bitcoin: Where to Invest in 2020?

Description

It's already time to start thinking about portfolio investment options for the next year, and among the various asset class options available are some yester-year millionaire-maker growth options still available for Canadian investors in 2020. Cannabis stocks and cryptocurrencies like Bitcoin have made big headlines over the past three years. Which among the two "industries" could be the best place for capital growth next year?

The hope in pot stocks

The marijuana industry has done phenomenally well since 2016 to create some new multi-billion-dollar corporations like **Canopy Growth** and **Aurora Cannabis**, which was my [top growth pick for 2017](#). The two giants have delivered 1,060% and 1270% in capital gains since January 2016 to this day.

Can this industry still generate impressive returns into 2020?

Pot producers may thrive going forward. There are established use cases for their products in both recreational and medical markets, while demand is growing internationally, as the world warms up to the idea that marijuana isn't such a bad weed after all.

That said, revenue growth, the most hyped factor, is lagging behind earlier analyst estimates for Canada and the path to profitability isn't clear yet for the majority of players. Edibles sales have been pushed back to mid-December this year, and early numbers will start trickling in during the first quarter of 2020. The data could feed a new rally.

Investor attention has prematurely turned away from sales growth to profit generation potential, and Canopy has lagged on this front lately, but the market leader could return to market favour should costs be contained while increased productivity translates into sales over the next year.

Aurora will report in September, and the earlier earnings guidance is encouraging. Shares could respond positively if the aggressive giant shows a path to sustainable adjusted EBITDA growth over the coming year.

The problem with the entire industry is the elevated share price volatility. **Horizons Medical Marijuana Life Sciences Index ETF** hasn't generated positive returns between January 2018 and August 27, 2019, but its standard deviation of returns was over 55% to reflect the high investment risk.

However, individual stock selection could have performed better with **Village Farms International** being one of the best performers over the past 12 months, but some unforeseen disasters like **CannTrust Holdings** have dented the industry's reputation.

The case for cryptocurrencies

The mighty Bitcoin and thousands of its crypto cousins are morphing into "safe-haven" assets for millennials and tech savvy investors. The Cryptocurrency Index (the CCI30) represents over 90% of total coin market capitalization and has a stronger positive correlation with gold than with the broader U.S. stock market represented by the S&P 500.

That said, a lack of widely marketable use cases for the coins makes a weaker long-term holding value proposition against cannabis, but there's growing interest from big banks and tech giants like **Facebook** with its Libra project.

Further, the fact that new forks (versions of the same coin) and competing coins can easily be launched makes it harder for buyers to pick winners while news of exchanges being hacked aren't encouraging for a technology that intends to solve authenticity problems.

Latest news from *Bloomberg* (August 26) on Ethereum, the second-largest coin by market cap, is that the blockchain is "almost full" and this is increasing transaction costs for end users. While this could be good news for miners like **Hive Blockchain Technologies**, who may enjoy increased fees, higher costs could hamper the rate of applications development around the technology.

We could soon see better improvements in scalability on Ethereum after some expected tweaks, but these may come with some compromises in security, while reducing transaction costs in a very big way — and suddenly, Hive Blockchain and peers may not like the change.

Most noteworthy, digital coin values are [historically more volatile](#) than pot stocks. The Cryptos Fund, which replicates the CCI30, had an annualized standard deviation of returns of 127% by June 30 this year. That's a huge risk profile for an average risk-tolerant investor!

Foolish bottom line

Cannabis investing and digital currency speculation still offer growth opportunities for the next year. Both options carry elevated risk but fundamentals seem to favour beaten-down marijuana today. Good stock pickers in the small-cap space could still be rewarded in 2020, as edibles legalization presents new opportunities.

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Date

2025/08/22

Date Created

2019/08/29

Author

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