



Marijuana Stocks vs. Gold Stocks: Which Are Better?

Description

At first glance, marijuana and gold companies don't seem to have much in common. One is a brand new industry, the other is among the oldest businesses in the world. One sells consumable products, the other a durable commodity that's meant to last.

One is enormously popular with millennial investors, the other is a mainstay of older and more traditional investors.

In light of these comparisons, one might wonder whether weed stocks and gold stocks should even be mentioned in the same breath.

However, on closer examination, it turns out that these industries have much in common. While weed and gold are intrinsically very different things, they both belong to industries with many junior-stage, upstart companies.

For this reason, both may appeal to aggressive investors who seek to beat the market. With high risk and potentially high returns, weed stocks and junior miners are two peas in a pod—at least as far as investing objectives go.

If you're a speculative growth investor looking to hop on the next big craze, you may wonder whether marijuana stocks or gold stocks are better for you. The following are three considerations to help you make up your mind.

Historical returns

Since appearing on the scene, marijuana stocks have absolutely destroyed gold stocks in terms of average returns. Since its inception in April of 2017, the **Horizons Medical Marijuana Life Sciences ETF** has risen 30%—despite weed stocks having tanked this year.

By contrast, the **S&P/TSX Gold Index** has returned just 23% in the same period. These are both market-beating results, but marijuana easily takes the cake.

But before you weed investors pat yourselves on the back, I'd point out that the comparison is less clear cut when we pick out individual stocks. **Kirkland Lake Gold** (TSX:KL)(NYSE:KL) is an enormously profitable gold producer that has shot up 82% this year.

There are no TSX weed stocks that can match that return, not even **Aphria Inc** (TSX:APHA)(NYSE:APHA), the best-performing weed stock at the moment, is close.

Growth prospects

When comparing any two industries side by side, we have to look at growth. Investors are looking for their investments to increase in value, after all, and increasing sales or profits can send stock prices higher.

Here, the comparison between weed stocks and marijuana stocks is more complicated. The big TSX weed stocks have been posting absolutely unbelievable revenue growth numbers recently, with Aphria's sales up 900% in its most recent quarter and others posting growth in the 200%-300% range.

However, much of this growth comes from the one-time boost from weed legalization. Once that event has been over for a year, revenue growth rates will presumably slow.

As well, some gold stocks actually have profits: Kirkland Lake grew its net income by 69% year over year in its most recent quarter, in contrast with weed stocks, which often have no profits to speak of.

Profitability

To zoom in a little closer on profitability, established gold stocks are generally able to produce profits—although high interest expenses can eat into them.

Kirkland Lake Gold has a 34% profit margin and a 28% return on equity, while Aphria—the most profitable weed stock as of its most recent quarter—isn't even profitable for the trailing 12-month period. Even **Barrick Gold**, an incredibly debt addled company, was profitable in two out of the last four fiscal years.

On the other hand, many junior mining stocks have neither revenue nor profits to speak of, so gold's edge in profitability depends on which type of gold stock we're talking about. The point remains, however, that larger gold stocks are much more profitable than anything in the weed sector has to offer.

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