A Beginner’s Guide to Buying Weed Stocks

Description

Are you ready to be part of the “green rush” and invest in the much-ballyhooed weed stocks? If you are, you should know the risks you are facing in a nascent industry. The global cannabis market has tremendous growth potential. Give or take, it could be worth $150 billion annually in the next 10 to 15 years.

A growing number of countries and states are legalizing marijuana or at least considering legalizing it. Despite the allure of high returns, however, investors must manage their expectations. The industry is undergoing birth pains, mounting losses, and controversies.

Birth pains

After the legalization of adult-use marijuana in Canada last year, many thought that it would be smooth sailing. However, supply and distribution problems emerged.

The cannabis company with largest potential production capacity, **Aurora Cannabis** (TSX:ACB)(NYSE:ACB), along with industry peers, was unable to meet the surging demand.

Aurora is forecast to hit an annual run rate of output of 625,000 kilograms by the end of fiscal 2020. But the company is just one of the many cannabis producers waiting for Health Canada to grant cultivation licenses. The agency’s backlog of 800 license applications is compounding the issues on the supply side.

Among all cannabis producers, Aurora is in a better position to dominate both the medical and recreational markets worldwide. Export agreements with 25 countries are in place.

Mounting losses

The current sentiment on weed stock is bearish. **Canopy Growth** (TSX:WEED)(NYSE:CGC) is the most prominent cannabis producer in terms of market capitalization. Together with Aurora, the pair should be the industry's top money makers.

Canopy solidified its market leadership status after U.S. alcohol beverage giant Constellation Brands pumped in a $4 billion investment. Unfortunately, losses are mounting, and profits would only come after both complete ramping up production and processing operations.

Sadly, Canopy's net loss in the recent quarter ballooned to $1.2 billion, which led to the firing of the CEO and a bitter pill to swallow for **Constellation**. Canopy is now searching for a new leader to steer the company into the future.

Canopy and Aurora are aggressively fighting for a commanding international presence. A severe supply glut is looming in Canada next year, and the top producers need a larger catch basin to accommodate the abundance of cannabis products.

Controversies

Aphria (TSX:APHA)(NYSE:APHA) is the third-largest marijuana cultivator in Canada. If not for the controversies, the company could be the industry forerunner by now. Aphria was hounded by short-selling issues, hostile takeover bid, and management shake-up.

Luckily, the company was able to survive the negative publicity. While it posted a modest profit of $15.8 million in the fiscal fourth quarter, Aphria is the first cannabis company to report income.

Aphria is also ramping up its export volume to compete with top-tier players Aurora and Canopy. The company is starting to gain traction in Germany, Latin America, and the Caribbean.

Wide-open race

The way things stand today, weed stocks are high-risk, high-reward investments. Among Aurora, Canopy, and Aphria, we don't know which one will assume the leadership position. But if you want to get your feet wet, start with small investments. You can buy more when the sector is showing a semblance of stability.

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1. NASDAQ:ACB (Aurora Cannabis)
2. NASDAQ:CGC (Canopy Growth)
3. TSX:ACB (Aurora Cannabis)
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