



## Are Marijuana Stocks Resilient Enough to Withstand a Recession?

### Description

When recessions occur, many businesses reliably go down with the ship. Industries like manufacturing and construction are known to falter in downturns, as are certain retail sectors.

On the flip side, however, some industries are well known for surviving recessions unscathed, like utilities. As for new, emerging industries, it can be difficult to predict how they'll fare when the economy sputters. Each recession is unique in its effects, especially amid industries whose characteristics aren't known.

Marijuana is one such industry. Most of the big-name marijuana stocks went public between three and five years ago, and none of them were around during the last recession. Although marijuana growing is as old as time, legal marijuana growing by publicly traded companies is very new, and it's not easy to say how such companies will fare when a recession occurs.

However, by looking at the historical performance of similar industries, we can come up with a thesis. It just so happens that one historical trend makes a strong case for optimism.

### Vice industries tend to do well in recessions

It's well established that vice industries, such as alcohol, tobacco and gambling, [tend to do well in recessions](#). As economic woes begin to weigh on people, they seek escape, and the purveyors of vice reap the profits.

According to the financial information company S&P Global, alcohol sales rose 10% between 2010 and 2011 in the U.S., when unemployment was at a historic high of 9.3%. Booze sales also shot up 9% in 2008, the first year of the great recession.

In 2009, when the recession was in full swing, many tobacco stocks skyrocketed. All of these statistics point to the staying power of vice industries in recessions. Marijuana, which serves a similar function to booze and tobacco, may therefore enjoy strong sales in a hypothetical future downturn.

## Financial problems could get worse

That said, there's still a strong case to be made that a recession could hit weed stocks hard. Despite the recession-proof nature of their *product*, marijuana companies possess many financial characteristics that could render them vulnerable in a downturn.

One of those problems is that of potential future losses from acquisitions.

Many marijuana stocks have huge amounts of goodwill on their books stemming from past acquisitions. Goodwill is basically the premium a company paid for a company above its intrinsic value. If the company can't recoup the value of an acquisition, it may have to write down its goodwill.

This is precisely the situation that **Aphria Inc** (TSX:APHA)(NYSE:APHA) finds itself in right now. Aphria recently made headlines as [one of the first big marijuana stocks to become profitable](#) in both net and operating terms. The company's success in generating millions in earnings is thus not to be understated.

However, it has \$700 million in acquisition-related goodwill on its books—much more than it's generating in revenue. If some of that has to be written down, the company would end up with massive losses.

If that coincided with losses in the company's investment portfolio—very likely during a recession—then it could be in serious trouble and its shares could take a hit.

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