



3 Reasons Gold Stocks Are Better Than Weed Stocks Right Now

Description

Over the past three years, marijuana stocks have been among the best-performing stocks on the **TSX**. Despite extreme volatility and some big downswings, stocks like **Canopy Growth Corp**, **Aurora Cannabis Inc** and **Aphria** have outperformed the index dramatically since they went public.

For this reason, they've become favourites of speculative growth investors seeking quick gains.

Now, however, the tide seems to be turning. Marijuana stocks as a class spent most of this past summer in freefall, with **Horizons Medical Marijuana Index ETF** shedding 24% of its value from June 21 to September 1.

Bad publicity appears to have been the main culprit, as **CannTrust Holdings Inc's** (TSX:TRST)(NYSE:CTST) regulatory scandal cast a cloud of suspicion over the entire sector.

For investors seeking quick, dramatic gains, marijuana stocks may have lost their lustre. Now, however, a new class of stocks may be set to take their place. Gold stocks have risen dramatically over the summer, driven by a rising price of gold.

Despite a surprising slump in gold last week, most analysts believe that the commodity still has upside. The following are three reasons why gold stocks will perform better than weed stocks if gold resumes its bull run.

They're more modestly valued

It's well known that marijuana stocks trade at sky-high valuations. Even CannTrust, one of the cheaper stocks in the industry, trades at 5.97 times sales. Gold stocks, by contrast, have valuations that are reasonably within the realm of sanity.

Kirkland Lake Gold (TSX:KL)(NYSE:KL), a company that's [growing earnings at 69% year over year](#), trades at just 24 times forward earnings, which is low for a company with such a high growth rate.

Additionally, the company is constantly improving its operating efficiency, having reduced its cost per ounce mined by 29% in the last quarter. What this means is it can increase earnings even when gold is weak, providing a clear path to future profits that can easily justify its market price.

Gold has been on the rise

Gold has been on an epic rise this year, driven by fears of a recession. Although the commodity saw a sharp downturn last week, it should enjoy more upside if investors remain worried about a looming recession.

In times of recession, investors tend to flee to gold, as they're seeking a safe haven asset whose value isn't tied to the performance of the broader economy. If our current recession jitters cool off, then gold's rally may end.

However, most economists predict a recession sometime in the next two years, so we can expect the gains to resume at some point in the future.

Gold stocks are more profitable

Last but not least, many gold stocks have the advantage of established, growing profits. Although this isn't true of all of them, it's definitely true of the more established players in the industry.

If we look at Kirkland Lake Gold, we see that it's not only consistently profitable, but it also possesses very high margins. The company has a [profit margin of 34%, and an ROE of 28%](#). By contrast, a company like CannTrust had no positive earnings to speak of in its most recent quarter.

The comparison above shows a key difference between gold stocks and weed stocks. Whereas gold stocks like Kirkland Lake can be highly profitable, marijuana producers like CannTrust usually have no track record of profitability to speak of.

Of course, this depends on which type of gold stock we're talking about. Junior miners often go public before having any real revenue. In general, however, there are a lot more profitable companies in gold mining than there are in marijuana cultivation.

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