Millennials: Should You Just Say No to Weed Stocks?

Description

Weed stocks offer terrific growth potentials, yet millennials should think doubly hard before taking a position in Canada's cannabis producers. If you're inexperienced in the cannabis space, all the more reason to say no to weed stocks.

Aside from the lack of fundamentals (and profits), cannabis companies are giving the industry a bad image because of controversies and scandals. **Canopy Growth** (TSX:WEED)(NYSE:CGC) and **CannTrust** (TSX:TRST)(NYSE:CTST) are popular weed stocks. However, you shouldn't risk your money on them.

Dangerous weed stock

CannTrust is not a trustworthy cannabis company. The company's former chairman and CEO deliberately broke legal cannabis cultivation laws. CannTrust was cultivating cannabis from unlicensed cultivation rooms for six months and selling them to unsuspecting clients.

When Health Canada found out the anomaly through a random audit, CannTrust had no choice but to admit to the fraudulent operations. The expulsion and resignation of the CEO and chairman followed. The stock was trading as high as $10 in late April but has sunk to $2.20, or by 78%, as of this writing.

On August 1, 2019, the Ontario Securities Commission received an application from CannTrust for a management cease trade order. The investing public is free to trade the stock, but management, directors, and other insiders are prohibited.

The latest from the grapevine is that before the end of September, CannTrust will no longer be on the S&P/TSX Index. The company has lost its moral ascendancy. No one would dare to invest a weed stock that nearly brought the entire cannabis industry down.

The industry giant is high risk

The standing of Canopy Growth is not as grave as that of CannTrust. The largest cannabis company has no record of violating of cannabis regulations. However, the Canopy's market value is down from $14 billion to $11 billion. The stock price was doing almost $70 in late April but is down by 55.53% to $33.23 today.

Canopy is posting losses at a torrid pace. The company's founder and former CEO Bruce Linton was fired by the major partner and investor **Constellation Brands**. The American alcohol beverage giant did not like the excessive spending and mounting losses. Canopy lost more than $1 billion in the most recent quarter.

Unlike CannTrust, Canopy's future is not bleak. In the next 12 months, analysts see the company's revenue to increase by 290.9%. Its EBITDA in the same forecast, however, would be negative.

Despite being the cannabis industry's giant, Canopy is not a profitable company. It would take a long time before business fundamentals improve. But Canopy will certainly achieve long-term sustainable growth.

"No buy" zone

Except for CannTrust, which is in dire straits, most of the weed stocks are in the same boat with Canopy Growth. Profits are as elusive as ever. There's no way to tell when the industry will stabilize. At present, volatility is at an all-time high.

As mentioned earlier, the weak fundamentals, controversies, and scandals are sufficient reasons to declare the cannabis sector a "no buy" zone. Millennials, as well as baby boomers, should be smart enough to look for less-risky stocks that offer sure returns.

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