Marijuana Stock Investing Is a Marathon, Not a Sprint

Description

Do you see similarities between the dot.com bubble and the booming cannabis industry? Both periods had spectacular beginnings. The most striking resemblance is in the rapid price surges and declines. In 1999 to 2000, investors lost millions, while many internet companies folded up.

Some internet companies, such as **Amazon.com** and **eBay** were able to survive, and both are doing well today. If the same thing is happening in the cannabis universe, it's safe to say that investing in pot stocks is also a marathon.

It's not a sprint if you're thinking of investing in **Canopy Growth** (TSX:WEED)(NYSE:CGC) or **Flowr** (TSXV:FLWR). You can't be sure whether the top-tier pot stock and the small-cap upstart can survive the burst of the marijuana bubble.

The same risks

At the height of the dot-com frenzy, people buy on rumours and sell on news. In the cannabis sector, stock price movements are news-driven. As the internet was a new technology then, there was so much hype over internet stocks. That same hype is occurring today, but this time, pot stocks are in the limelight.

Many people didn't get their money back from tech stocks that went bust, which should serve as a valuable lesson to would-be cannabis investors. You have to be extra careful when picking pot stocks, as not all of them are winning stocks, and your holdings might be worthless in the end.

Big and small

Let's look at Canopy Growth and Flowr. The pot stocks belong to the opposite ends of the spectrum — the most significant cannabis producer and a small industry fry. Which of the two is the better long-term investment?

Canopy Growth has a market capitalization of $10.83 billion, while Flowr's is barely 3% of the undisputed market leader. Canopy is the hottest pot stock before and immediately after the legalization of adult-use marijuana. Alcohol beverage giant Constellation Brands came with $4 billion to partner with Canopy.

WEED was doing okay at the start of 2019. But after two disappointing quarterly reports, the stock crashed to dash all hopes of earning from the stock soon. Still, Canopy Growth is making up for it in terms of sales growth. The company will be in the red until 2021.

Flowr is a specialty grower whose goals are not as ambitious as Canopy Growth. Its focus is on premium and ultra-premium dried flower and derivatives. These high-margin products will boost sales growth by 356% in 2020. Flowr will soon have broader access to global investors when it begins trading on the NASDAQ.

Similar to the dot-com survivors

Amazon was among the biggest losers when the dot-com bubble burst. But the company emerged several years later as the e-commerce behemoth.

I believe Canopy Growth has the makings of Amazon. In about three to five years, the premier cannabis company will cement its industry-leading position.

Specialty retailer eBay did not suffer as much during the dot-com bubble, as its products and online auctions grew in popularity. Flowr could be following in eBay's footsteps.

The company prioritizes quality over quantity. Its specialty products are high-priced, which would likely mean sustainable operating margins in the long run.

Canopy Growth and Flowr will survive the cannabis bubble. But remember, you're investing for the long haul, not short-term gains.

CATEGORY

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2. TSX:WEED (Canopy Growth)
3. TSXV:FLWR (Flowr)

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