



Marijuana Stocks 101: The Good, the Bad, and the Ugly

Description

What can be said about marijuana stocks that hasn't been said already? Over the years, they've given investors some of the biggest gains *and* some of the heaviest losses of any asset class. Possibly the most volatile sector one can invest in, they make for a jittery ride. But over the very long term, most of the large TSX weed stocks are up dramatically.

The question now is whether marijuana stocks will remain volatile and bullish or regress to just being volatile. After years of upswings and downswings, weed stocks have spent most of 2019 trending downward, while the broader markets have been sideways. Now, with many of these stocks trading at 30 times sales, some are wondering if the best is over.

Ultimately, it's impossible to say with certainty. However, by looking at the good and bad aspects of marijuana stocks — along with a few ugly ones — we can get an inkling of what the future holds.

The good

The most obvious “good” thing about marijuana stocks is their growth. Almost all of the big TSX weed stocks have been growing revenue at more than 200% year over year recently, and some are now posting profits on top of that. **Aphria** (TSX:APHA)(NYSE:APHA), for example, [grew its revenue by an astonishing 969% in its most recent quarter](#). Not only that, but it also posted a 158% jump in adult-use sales and surprised everyone with \$15.8 million in net income. These results show that Aphria is growing its business at a rapid pace, and it's not the only marijuana stock that has been doing so.

The bad

The main “bad” thing about marijuana stocks is that for most of them, profit is nowhere in sight. Although Aphria was able to post surprise profits in its most recent quarterly report, it’s the exception rather than the rule. As of September 2019, most of the big players are still posting losses. Additionally, even Aphria’s own profitability may face a setback if it is forced to write down \$700 million worth of goodwill, as a recent MarketWatch story suggested may happen.

The ugly

The “ugly” aspect of marijuana stocks is their increasing regulatory trouble. Here, **CannTrust Holdings** is the main offender, having been caught growing pot in unlicensed rooms not once, but twice. The [CannTrust Health Canada scandal](#) is old news at this point, but it leaves open the question of whether other marijuana stocks could be caught up in the same thing. In the lead-up to legalization in 2018, marijuana producers were scrambling to get product to market quickly enough to meet the insatiable demand. As it happened, their efforts weren’t enough, as weed stores were sold out for months afterward. But that’s not the main problem.

The real problem is the possibility that in this scramble to push out product quickly, many big-name marijuana companies cut corners they shouldn’t have. In the wake of the CannTrust scandal, you can be sure that Health Canada will have its eyes on them. As a result, there may be more such scandals to come in the not too distant future.

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