Is Investing in Marijuana Stocks Insane?

Description

When you think about marijuana stocks, what can you possibly expect to read about them that hasn't already been mentioned? Over the years, pot stocks have managed to make investors massive gains as well as losses. When you look at asset classes in the stock market, weed stocks are the most volatile of them all.

The long-term prospects of the overall marijuana industry seem very bright. Increased awareness about marijuana and continued legalization have improved its global sales. More sales mean better business for cannabis producers and distributors.

People are still unsure whether it's wise to invest in marijuana stocks right now. Some stocks are a good investment option, while investors should avoid others.

With more and more people realizing that cannabis stocks are overhyped, the skyrocketing valuations of companies are coming down.

HEXO (TSX:HEXO)(NYSE:HEXO) is a company that should be avoided, as the stocks have a high price. On the other hand, **Aphria** (TSX:APHA)(NYSE:APHA) is a company valued correctly, which means that it could be a good investment to consider.

Let's take a better look at both companies, shall we?

Overhyped cannabis stock you should avoid

Canada's impending legalization of marijuana edibles later this year is causing a bit of a craze in the industry. Hexo wants to leverage this as an opportunity to make a more significant mark in the industry.

To this end, cannabis producer is joining hands with **Molson Coors Brewing**. The plan is to introduce CBD-infused beverages, which could potentially help both companies.

Hexo believes introducing that CBD beverages will be a big hit and that competition in edible marijuana products will be fierce. The edible weed market is a crowded space, and sales could go flat. It's more likely that Hexo might see profit margins decrease.

The highest value that Hexo stocks reached was $11.11 per share back in May. At the time of writing, the price of Hexo stocks is $5.39, and this is still too high.

The impending legalization and launch of Hexo's edible products are a few months away. The impact on how Hexo performs with edible weed legalization is speculative at best, and it could be a risky investment right now.

What about Aphria?

One of the best things about marijuana stocks is that it's operating in a growing industry. That's one of the reason why early investors are now pleased with them.

Almost all of the significant TSX cannabis stocks are growing revenue at more than 200% year over year, and some pot companies posting even higher profits.

Amidst all this, Aphria posted a remarkable growth of 969% in the latest quarter. The weed stock also reported a spike in sales of adult-use marijuana by almost 160%. The subsequent $15.8 million net income took everybody by surprise.

At the time of writing, Aphria stocks are $8.28 a share, and the company is correctly valued if not undervalued right now. The company is growing at a fast pace. At a time when pot stocks are on slightly unstable grounds, Aphria is the only company that seems to be doing well.

Foolish takeaway

When it comes to the most volatile asset class in the stock market, there's little certainly. While it's not the worst time to invest in marijuana stocks, investors do need to invest carefully.

Hexo still looks expensive after the massive drop in the share price, similar to many other pot growers. Aphria, on the other hand, has a healthy balance sheet.

The pot company showed significant growth in the most recent quarter. The company still has room to grow, and the price of the company's shares could increase further.

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