The #1 Mistake Marijuana Stock Investors Make

Description

The hype over marijuana stocks is creating overzealous investors. This budding industry is drawing so much attention because of the promise of explosive growth. Since the legalization of adult-use marijuana last October, however, some investors lost money in two of the most promising pot stocks.

Hexo (TSX:HEXO)(NYSE:HEXO) and **Green Organic Dutchman** (TSX:TGOD) had steep drops in recent months. Many investors in the two pot stocks made the number one mistake when investing in marijuana: too much of their portfolio was weighted towards marijuana, and now they are paying the price.

Sputtering growth

Hexo is one of the marijuana stocks that had huge declines this year. The stock soared by 113% to $11.11 from early January to late April. Since then, the high-flying pot stock went on a free fall. The latest price of Hexo is a low $5.39.

So, why is Hexo sputtering? The Quebec cannabis giant is at the stage of building infrastructure and production capacity. Hexo is also expanding its distribution channels and market presence outside Quebec.

While Hexo is working to grow top-line revenue, it’s also burning cash at the rate of $100 million a year. The company’s total gross revenue in Q3 2019 grew to $15.9 million or 11.8 times better versus the same quarter in 2018. The figure could double in Q4 2019 as a result of its expansion initiatives.

Hexo’s distinct business model would be its saving grace come December this year. Its partnership with **Molson Coors** brewing is a niche play because the main focus of Hexo is on edibles and beverages, which have a broader customer appeal.

One step backwards, two steps forward

At the start of September, **Aurora Cannabis** sold its significant holdings of TGOD shares. TGOD is downplaying Aurora's hasty move, despite the 16.5% drop after the announcement. The company is in denial, although there are negative implications.

The stock went as high as $5.48 in mid-March but is lower by 57.3% today. Losing the support of Aurora somehow dampens the future of TGOD in the eyes of investors. Many of the primary industry players are reporting significant revenues except for TGOD.

TGOD's CEO Brian Athaide said that losing Aurora brings more positives than negatives. Reserving its premium organic cannabis for Aurora would mean lower average prices and margins. Thus Aurora's departure would improve the company's revenue and margin potential.

Management remains optimistic about fulfilling its business objectives and creating value for shareholders. TGOD made a significant step last month to broaden the investor base, increase access for international investors, and to grow further. The company's application to list on the Nasdaq is now pending.

Promising future

Hexo and TGOD are not out of the game. The lesson is here is that you must think long term if you want to invest in the two promising stocks. If you're not ready for the wild price swings, you must limit your exposure.

Since your chances of losing money are high, keep only a small percentage of Hexo and TGOD in your portfolio. You would be in high spirits or desolate at times, depending on how the stocks perform under immense volatility. But in the long term, your small investment in Hexo and TGOD could deliver massive gains.

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Date
2025/08/26
Date Created
2019/09/28
Author
cliew