



Are Cannabis Stocks a Buy After Expanded Legalization?

Description

The road to a stable, legal cannabis market has been a tortuous one, strewn with treasure and pitfalls in almost equal measure and [swamped with hidden complications](#). Pot stocks are rallying this week, though, after two milestones hit at once: the first-year anniversary of legalization in Canada, and the second wave of green-lit cannabis product types. However, while Cannabis 2.0 has investors in a bullish mood, one asset type is notably absent.

Legalization is still missing a key market

The biggest gap in the Canadian legal cannabis market is weed-infused drinks, which remain a no-no this side of the border. However, the market for cannabis drinks in the U.S., tentatively valued at US\$1.4 billion by 2024, has observers salivating. **Canopy Growth** is among the players set to infuse the American market with the Next Big Thing in marijuana. But is Canopy stock a buy?

Constellation Brands could be a better play than Canopy going forward, since the former company could end up expanding its 38% stake and outright owning the cannabis producer. Investors automatically tap into a cross-border play in the legal weed space by buying into Constellation, while also diversifying into alcohol investment and side-stepping some of the price volatility of the pure-play pot stocks.

Stable growth already exists in the cannabis space

North American investors waiting patiently for profitability are already starting to gravitate towards the U.S. market. Look at the interest in CBD south of the border, for instance, or the outlook for cannabis-infused drinks. And while pure-play cannabis stocks have been [busily shedding value](#), Constellation Brands has been doing the rounds as a more stable entry for new weed investors.

Indeed, if the Canadian cannabis market is too slow for momentum investors, there is significant upside to be creamed from the States. Thirty-three American states have already green-lit cannabis, and new developments — notably, the passing of a bill that gives the all-clear to banking support for

marijuana companies — are signifying a groundswell of support for blanket legalization south of the border.

Cannabis reform in the U.S. would kickstart considerable growth not only there but also in Canada, forcing domestic businesses and legislators to up their game. And while stronger legal competition might be a headache for a fledgling Canadian sector, it could help to squeeze out the +40% share of the black market, increase cost efficiencies, and drive fresh investor attention in a coordinated North American legal market.

The market for the green stuff is undoubtedly huge. But before the legal market can get fully underway, there's still an established underground market to contend with. While most investors may be aware of the black market, the in-between stage of dispensaries waiting to get licensed, the grey market, is another draw on pure-play legal weed stocks.

The bottom line

With edibles, extracts and topical creams hitting the shelves within weeks, cannabis stocks are seeing a relief rally. However, whether it fills investors sails to any significant extent currently depends on how Cannabis 2.0 gets rolled out. Meanwhile, investors seeking high growth should continue to watch encouraging developments in the U.S. and consider doubling down on Canopy or Constellation.

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