



## When Will Cannabis Stocks Recover?

### Description

Cannabis stocks had an incredible 2018, but this year, the market has turned sour. Most notable marijuana ETFs have fallen in value by more than 50%. Several companies are scrambling for cash to survive. Even well-capitalized firms are experiencing [renewed scrutiny](#) into their business strategies and long-term promise. For all the hype cannabis stocks received last year, 2019 has been a humbling period.

Still, the industry's prospects remain bright. Many reputable analysts expect the global cannabis market to exceed \$100 billion by 2030. **Stifel Financial** has suggested the long-term sales potential could eventually surpass \$200 billion.

Despite these rosy expectations, the pot market continues its free fall. So, it's reasonable to ask: When will marijuana stocks recover? To figure this out, it's necessary to go deeper into what will ultimately drive the industry's winners and losers.

### Beware commoditization

Commoditization is coming. In fact, it may already be here. This is perhaps the number one risk cannabis investors face today. That's because many companies traded at levels which implied high selling prices per gram. With pot prices continuing to decline, valuations across the board have come down.

Take a look at Washington, D.C., where supply is constrained due to limited growing infrastructure. Pot prices there are averaging around US\$18 per gram. In areas with access to more supply, like San Francisco, Seattle, and Denver, cannabis prices are more than 50% *lower*. This is a simple case of supply and demand.

It can get even worse. Last year, Oregon was drowning in more than one million pounds of excess weed. To meet the demands of investors, growers were rushing supply to market as quickly as possible. Prices plummeted. If you've been paying attention, you'll know that the same situation is playing out in Canada today. Companies like **Green Organic Dutchman Holdings** and **HEXO** are

planning massive supply ramps over the coming quarters, even though their production isn't very differentiated.

Marijuana stocks won't recover until the market is re-balanced. Judging by the large volume of new capacity set to come online over the next 12 months, I'm not expecting a sustainable pricing recovery anytime soon.

## Regulations can kill you

Apart from commoditization, investors over the past year have underestimated the impact of future regulations. Recreational cannabis is legal in Canada and several U.S. states, but the regulatory environment is far from established. Bulls look forward to improvements like increased access to capital and financial markets, yet there are concerns about packaging and marketing practices, not to mention additional taxation.

If you want to navigate the ongoing threat of commoditization and regulation, stick with well-financed pot stocks that have proven expertise. Companies like **Cronos Group**, which partnered with tobacco giant **Altria Group**, and **Canopy Growth**, which partnered with consumer brand behemoth **Constellation Brands**, are best positioned. Cronos should be able to rely on Altria for regulatory guidance and compliance, while Canopy can leverage Constellation's ability to create award-winning brands to stem the tide of commoditization.

When will marijuana stocks recover? Perhaps that's the wrong question. Commoditization and regulation may pressure many cannabis stocks for years to come. Others, like Canopy and Cronos, have the ability to forge their own path forward. In 2018, pot stocks moved together as a basket. In 2020, we may see a major divergence between winners and losers.

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