



Forget Bitcoin: Here's Why Cannabis Stocks Are a Better Bet for Those Aiming for a Million

Description

Bitcoin is starting to make headlines again following its resurgence above the US\$10,000 mark, raising the collective appetite for speculation once again.

But as someone wise once said: "Fool me once, shame on you. Fool me twice, shame on me."

Despite the recent surge in momentum, however, the dreaded cryptocurrency is still an asset that could potentially be worth nothing in the grander scheme of things.

Many brilliant investors, including Warren Buffett and Charlie Munger, haven't changed their tune on the asset on Bitcoin and still think of it as "worthless artificial gold."

So, if the recent bounce in Bitcoin is giving you the urge to take a chance on an asset that could appreciate quickly, consider one of the **TSX Index**'s heavily out-of-favour marijuana stocks instead.

They're absurdly volatile. They could easily double in a short time frame just as cryptocurrencies could, but unlike Bitcoin and the like, they're backed by tangible businesses that can limit one's downside in a worse-case scenario.

Warren Buffet is an advocate of investing in what you know. And given that the average investor has no idea how cryptocurrencies work, it's impossible to determine what they're worth without playing the game of greater fools.

Heck, non-backed cryptocurrencies are essentially pixie dust that may be worth nothing at all, unlike tulip bulbs back in the day!

Speaking of tulips, another crop may take the world by storm again in 2020 — cannabis.

There's no question that the first year of nationwide cannabis legalization was a massive disappointment. I warned investors to get out before absurd expectations for demand were shot down by the proliferation of the black market.

Now that investors are aware that legal producers are going to war against the illicit marijuana growers, stocks have sold-off violently as sustained profits are now looking like a long shot for many firms that have hit profitability roadblocks in the first year.

The fact of the matter is that pot investors may need to wait years before pot firms like [Aurora Cannabis](#) (TSX:ACB)(NYSE:ACB) can stay in the green, as the firm's commendable margins are put under pressure along with its peers in the budding industry.

In a prior piece, I noted that Aurora's margin advantage would allow it to better weather the coming pot price war that could see legal prices drop substantially.

At this juncture, [profitability looks like a longshot](#), but I don't think investors should be looking at profitability as a metric for long-term success.

Instead, investors should be looking to the well-established firms that are investing heavily to improve upon longer-term business economics.

Just a commodity!

When oil fell off a cliff in 2014, many poorly-capitalized junior oil sands operators were brought to their knees, while a few established behemoths survived and took advantage of the carnage by acquiring assets and competing firms at massive discounts.

As legal cannabis producers look to fight off the black market, legal cannabis prices are due to take a plunge, likely by a similar magnitude as oil did in 2014.

Once the cannabis price wars pick up traction, many junior pot players may not make it. Others may get scooped up by behemoths like Aurora and **Canopy Growth**, marking the next major round of industry consolidation.

Yes, a substantial amount of pain is in the forecast for the pot firms as we head into 2020. But from a longer-term perspective, the next round of industry-wide capitulation will allow the leaders in the space to establish their dominance. That's a good thing for the big players in the space in the grander scheme of things.

Foolish takeaway

Short-term pain for long-term gain is what you're signing up for with pot stocks at these levels.

But with Bitcoin, you're merely taking a spin of the roulette wheel, and the longer you stay invested, the more likely it is that your tokens will become worthless.

Ultimately, deep-pocketed firms like Aurora and Canopy will see the light of day again. Until then, however, investors will likely going to continue rushing for the exits as margins look to be pressurized over the intermediate-term.

As others continue to panic sell, I'd recommend buying the best-in-breed pot firms on weakness and adopting a long-term investment horizon to profit as the nascent industry matures.

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