



Now Is the Time to Be Greedy With Marijuana Stocks

Description

The brilliant billionaire investor (and teacher) Warren Buffett says that investors should “be fearful when others are greedy” and “greedy when others are fearful.” It’s one of those timeless pieces of advice that’s easy to understand and talk about but ridiculously hard to put into practice in real time.

Do Buffett’s rules of value investing still apply in the seemingly nonsensical (or even bubbly) world of marijuana stocks?

You’d better believe it. Pot stocks have skyrocketed and collapsed many times over the last few years. Although this sell-off is a lot more painful than the ones in the pre-legalization era, I think there are substantial rewards to be had for those with the disposable cash to speculate with.

If you’re a millennial who’s not retiring anytime soon, why not place a speculative bet that could double or even triple over a short period of time?

Marijuana stocks, although now profoundly out of favour, I believe, are still an investment that could allow one to pay a dime to get a dollar.

How much has the average cannabis stock lost in this recent decline? Look no further than **Horizons Marijuana Life Sciences ETF**, which is currently down over 64% from its all-time highs. Less than a month before marijuana was officially legalized in Canada, I urged investors to sell marijuana stocks before a [“sell-the-news” scenario](#) panned out, as the [“sky-high-demand” hallucinations](#) that many investors had were shot down by a thriving black market.

“Post-legalization results could end up being the pin that ends up popping the cannabis bubble.” I said in my prior warning to investors.

How did I know?

I saw marijuana as a plant — a plant that’s at the mercy of the rules of a commoditized market.

I also predicted that taxes would be way too high and would allow the black market to thrive. Today,

after a full year of nationwide legalization, the spread between legal and illegal marijuana has grown substantially, so it's not a mystery as to why the black market has fed the "sky-high" demand for cannabis that many analysts were euphoric about.

Aurora Cannabis ([TSX:ACB](#))(NYSE:ACB) is a pot stock that fell off a cliff, with shares down nearly 80% from peak levels reached before legalization day.

Investors are growing impatient with the lack of profitability from the cannabis firm, and with profitability started to creep further away as time goes on, it's not a mystery as to why investors looking to score a quick buck have given up on the entire industry.

Aurora is one of my favourite pot stocks, because it's one of the more efficient players in the space. And although profitability will likely be further away because legal marijuana prices that are due to take a plunge and take a toll on the margins of all licensed producers (LPs), I see Aurora as one of the top dogs that will arise after most of its junior players in the space go belly up after discovering there's little to no economic profit to be had by operating in a commoditized environment.

Aurora has a cost advantage with its continuously improving operations, and while the name could go deeper in the red, with the stock at risk of falling below \$1, I think it makes sense to average down on the name if you intend to hold on for at least five years.

There's a storm that's brewing in the cannabis market, but a lot of investors have already jumped ship. I think profitability is out of the question for now. Still, as Aurora (and other LPs) look to win over the business lost to the black market, I see massive top-line growth, which could be followed by ever-improving margins on its long road to profitability.

At the time of writing, Aurora trades at 0.8 times book and 12 times sales, which is not bad given the potential for a triple-digit sales grower that has a high likelihood of moving sustainably in the green within the next five years.

As a trade, pot stocks stink. But as a long-term investment, I think there's still a tonne of money to be made.

Stay hungry. Stay Foolish.

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1. Editor's Choice

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