



Which of These 2 Top Cannabis Stocks Is a Buy in 2020?

Description

As Peter Lynch says, “If you only invest in an index, you’ll never beat it.” This is why picking stocks is so important and the only sure way to escape a flat market. Just look at the end of last week, when some cannabis stocks were seeing +5% gains, while **Horizons Marijuana Life Sciences ETF** was down 4%.

However, the canny investor also said, “Invest in what you know.” And while Canadians may be no strangers to cannabis itself, the Canadian legal market is still undiscovered territory. That’s why only the biggest cannabis producers are a buy as a confluence of tailwinds ushers in the third act of pot stocks in 2020.

The first act was pre-legalization, which saw pot stocks explode in a way that put many investors in mind of the dotcom bubble. The second act came when legalization burst that bubble and saw disappointed stockholders cash in their chips, cratering the sector. The third act is Cannabis 2.0, which is now [beginning to test the market](#).

But what of those tailwinds? Most significant among them is Ontario’s [re-ordering of its retail environment](#), which will see the lottery system scrapped and up to 250 new outlets open their doors by the end of 2020. Other big moves revolve around **Canopy Growth** and developments south of the border that could see huge growth in the U.S. cannabis markets.

Popular player to takeover target

The idea that **HEXO** ([TSX:HEXO](#))(NYSE:HEXO) could be the subject of a buyout is not a new one. The news that the company is issuing a further 12 million shares certainly struck a chord with investors, and not in a good way. HEXO shares plummeted 21% at the end of last week, as the markets reacted to the possible dilution of the legal marijuana player’s stock. The plunge brought HEXO to a more than two-year record low.

The move marks the end of a bad year for HEXO, which managed to fall off several cliffs in succession. Not least of the market-moving headlines was HEXO’s announcement that it was

downsizing to the tune of 200 positions. Long-term investors can now take a couple of views: that HEXO's management is playing a long game, or that the company could become attractive to a larger producer.

While Canopy was itself down around 3% over the Christmas week, it was nowhere near the precipitous plunge experienced by HEXO. From a new CEO to the fruition of its relationship with **Constellation Brands**, Canopy Growth is still looking like as strong a play as any in the legal marijuana space. Will that third act finally tie the legal cannabis narrative together? The first quarter of 2020 could reveal all.

The bottom line

HEXO has value as a takeover target. Look at **Cineplex** and the huge boost it got on the back of the **Cineworld** overture. If HEXO were to become such a target, news of a deal could similarly reward shareholders. A speculative investment in HEXO alongside a long position in Canopy Growth would be a relatively low-exposure play on Canadian cannabis covering both long- and short-term capital gains.

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