



Here's How Cannabis Stocks Could Split in 2020

Description

A number of cannabis stocks have been hitting 52-week lows this year, with some all-time lows thrown in as well. As anyone who was invested in cannabis over the 18 months will know, the sector has been in a slump since legalization, the rollout of which has been anything but triumphal.

Here are two distinct emerging strategies: to go long on the strongest companies and place side bets on takeover targets.

Charlotte's Web Holdings, Dixie Brands, HEXO, and the **Horizons Marijuana Life Sciences Index ETF** have all hit 52-week lows already in 2020, with the latter [trading at its lowest ever price](#).

HEXO, a consensus "strong sell," ended 2019 badly, and its share price shows no sign of recovery from a 63% 12-month decline. This week has seen its current trough deepening as it emerged from the weekend.

Meanwhile, **Cronos Group** has been gradually declining for the last year. The stock has ditched 40% in that period, which is more or less in line with the sector. As might be expected, the Horizons Marijuana Life Sciences Index ETF walks a middle line, having lost 43% in the last 12 months.

Now consider **Canopy Growth**, which by comparison has ditched "only" 31% in that time. While that's hardly a strong performance in any other sector, Canopy Growth's stock price indicates a [market leader in an inhospitable space](#).

Indexes are a particularly bad way to play the cannabis space. Over the 12 months following legalization, the **ETFMG Alternative Harvest ETF** was down 51.75%, the **Evolve Marijuana ETF** had lost 38.91%, and the **Purpose Marijuana Opportunities ETF** had dropped 37.83%. And, along with the Horizons Marijuana Life Sciences Index ETF, these are among the *best* pre-picked baskets of cannabis stocks.

What's therefore emerged is a stock-picker' market, meaning that investors need to carefully select outperforming stocks in order to actually make any money in this space. In order to escape the index, investors need a new strategy.

Watch for the cannibalization of cannabis

With so many pot producers and a limited legal market that's likely to remain at least in some way constrained by oversupply and a dearth of retail outlets, it wouldn't be too much of a surprise to see a cannibalization of the cannabis space.

Mergers and acquisitions could mark the next phase of the marijuana investment landscape, with some potential takeover targets already emerging.

This is how cannabis stocks could split, with the largest outfits swallowing up the smaller ones, increasing growth through buyouts and lowering costs through key synergies.

Cannabis investment could therefore take a two-pronged approach with long positions in the biggest and strongest businesses and speculative side bets on undervalued companies with desirable assets.

The bottom line

While Canopy Growth isn't exactly rallying – it's up by a couple of points – it's still outperforming its competitors. Indeed, it's doing better than most things in the market at the moment.

Amid a sea of red, Canopy Growth is a welcome island of positive (if moderate) momentum. HEXO, on the other hand, could get swallowed up by a larger competitor, yielding sudden upside.

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