



How to Invest in Pot Stocks in 2020

Description

Pot stocks are on the rebound. Since the start of the year, many marijuana stocks are up by more than 10%. That's not a huge bump, but it's a welcome event following a disastrous 2019. Last year, the cannabis market at large was down by more than 50%.

As with any emerging market, volatility should have been expected. Yet last year's downturn has turned off thousands of potential investors. This is your chance to [capitalize](#).

Today, we have a much clearer view of how the cannabis industry will ultimately shake out. We've learned critical lessons that should successfully guide new investment dollars. Investing after a bear market can be scary, but it can often be more lucrative, and counter-intuitively, less risky.

Want to buy pot stocks in 2020? Here's how to invest.

Partners will be critical

If you want to make money in pot, it pays to heed the lessons of the past. Clues of what's ahead can be gleaned from markets that went through a similar evolution, such as the tobacco market.

According to the *Wall Street Journal*, the story of the tobacco market has been one of consolidation, aggregating power to the most connected and well-financed operators.

"A flurry of consolidation has winnowed the U.S. tobacco market from seven big players to two: Altria and *Newport*-maker Reynolds American Inc., which together sell eight out of every 10 cigarettes in the country," the paper reported. "As companies combined, they squeezed out costs and increased pricing power, along with profits."

The same story played out in Canada, where in 2019, just three companies controlled 99% of the market. Here's the lesson: invest in pot stocks with powerful partners.

The right partner can make all the difference as the pot market consolidates over the next decade and

beyond.

The first advantage is capital. Few pot companies today are profitable, so the ability to tap the financing capabilities of a multi-billion dollar partner cannot be over-appreciated.

The second advantage is influence. With a longer history of prohibition and strict regulatory oversight, marijuana will remain highly scrutinized and controlled. Having a partner that has navigated these types of markets successfully for decades is a huge plus.

The last advantage is expertise. The right partner likely has a proven history of creating brands that consumers know and love. As the pot industry experiences rampant commoditization, differentiation will be more important than ever.

With this in mind, pot stocks like **Aurora Cannabis Inc** could be at a disadvantage. While the company has forged a variety of deals that put the company in a promising position, it still lacks the weight of a blue-chip partner. This leaves it largely up to its own devices. To succeed long term, Aurora will need to execute without much outside help.

Cronos Group ([TSX:CRON](#))([NASDAQ:CRON](#)), on the other hand, has already secured one of the most powerful partners imaginable: tobacco giant **Altria Group Inc** ([NYSE:MO](#)). Altria has already invested billions of dollars, making Cronos its exclusive partner in the cannabis space.

I simply cannot think of a more valuable partner for the years ahead. Altria's \$100 billion market cap and investment-grade rating give it an unparalleled ability to out-invest the rest of the cannabis industry. Its multi-decade history of success also cannot be matched by any existing cannabis partner. Finally, its record of creating world-renowned brands such as *Marlboro* should give Cronos a huge advantage when it comes to differentiation.

Which company is more likely to succeed long term: Aurora or Cronos? Judging by history, my money is on Cronos.

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1. Cannabis

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2. NYSE:MO (Altria Group, Inc.)
3. TSX:CRON (Cronos Group)

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Date

2025/06/29

Date Created

2020/01/08

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