



## Marijuana Investors: 2 Powerful Trends to Track in 2020

### Description

The marijuana boom was supposed to happen last year. Investors expected the likes of **Canopy Growth**, **Aphria**, and **Aurora Cannabis** ([TSX:ACB](#))(NYSE:ACB) to reach stratospheric heights in prosperity. Instead, the legal marijuana sector faced an enormously challenging year. Canadian investors saw both big and small names in the industry struggle.

The three major cannabis producers tanked to devastating lows after climbing to record-breaking highs. All the anticipation and excitement due to the legalization of recreational marijuana waned, as the top producers failed to deliver results.

The scandals and regulatory issues have already made things bad enough for the sector, and stiff competition from the illegal growers has pushed stock prices for significant producers further down. If you want to know what the situation might be like for marijuana stocks this year, I am going to discuss a couple of influential trends that you should keep an eye on.

### Limited demand

Initially, after the legalization of recreational marijuana use, the demand for the product was immense, and there was not enough weed to fulfill it — at least not in the legal sector. The most significant producers of legal marijuana subsequently ramped up their production efforts in 2019 to bridge the gap between demand and supply.

The overall retail operations in Canada left many would-be consumers hanging dry. Major markets for the legal industry did not have adequate retail operations to meet their demands. Ontario had just 24 retailers selling legal weed by November 2019, while Alberta had more than 300 retailers but not the corresponding demand.

The available produce had a significantly higher price tag for consumers compared to what they could obtain from illegal growers. Where the demand is being met through cheaper products, consumers willing to buy from the legal industry are significantly fewer. The limited demand is leading to a growing inventory. Cannabis producers have plenty of weed to sell but nobody to buy it.

## Cash flow problems

Another trend to expect in 2020 is the ensuing cash flow problems. Aurora Cannabis was one of the worst-performing cannabis stocks in 2019. It started 2019 at \$7.02, and its stock is trading for \$2.69 per share at writing — a 61.68% decrease. Cannabis producers across the board had a challenging year, but ACB's massive losses and its [issues in European operations](#) might lead to further problems for the company.

If things were not already bad enough, ACB could face further cash flow problems through one of its most significant losses ever. A \$3.1 billion time bomb can send the stock down below \$1 per share in 2020.

ACB had \$3.1 billion worth of goodwill on its books. It is the acquisition premium that goes above the book value of a company acquired. The goodwill can be listed on the balance sheet of a publically traded company as long as the company in question can produce value.

## Foolish takeaway

Over the last year, ACB's shares fell drastically worse than its peers. The price might continue to fall due to the possibility of the goodwill being impaired. ACB recently sold off one of MedReleaf's major production facilities, [a company it purchased for around \\$3.2 billion](#). The sale is a sign that MedReleaf isn't performing as well as expected for ACB.

Between the overall decline in demand, regulatory issues for ACB's produce in Europe, and the overall cash flow problems in the marijuana industry, I think marijuana investors should be wary of how they invest their hard-earned savings.

### CATEGORY

1. Cannabis Stocks
2. Investing

### POST TAG

1. Cannabis
2. Editor's Choice

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1. NASDAQ:ACB (Aurora Cannabis)
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