This Pot Stock Is Perfect for a TFSA

Description

Tax-Free Savings Accounts (TFSAs) are perfect for growth investing. As long as your money remains in a TFSA, it grows tax free, even if you turn thousands into millions. Having a limitless tax shield is an advantage you shouldn't throw away.

In 2018, cannabis investors were ecstatic as most pot stocks skyrocketed by more than 500%. The story shifted in 2019, as the early-stage market experienced its first pullback.

With valuations depressed, 2020 could experience another bull market surge. By betting on marijuana using your TFSA, your gains will be completely protected.

But which stocks are best positioned? Even in an upward market, certain stocks outperform others.

The number one rule to keep in mind is to avoid commoditization. While cannabis is a bit different from pure commodities like corn and soy, it's still a crop that can be mass produced by any grower with enough upfront capital.

Over the long term, prices will trend lower and lower as industry supply ramps. Weak pricing and surging supply was a big reason for the downturn in 2019.

How do you avoid commoditization? Simple: you differentiate your products through branding. **Coca-Cola Co** is a prime example. Coke is made up of 100% commoditized ingredients. It costs the company pennies to produce a bottle, yet it sells for more than $1. What's going on?

Coke has done what few consumer brands ever achieve: build a brand with intense customer loyalty and trust. To succeed long term, cannabis companies need to figure out how to replicate this success in their market.

When it comes to branding, one Canadian pot stock has a big lead. That's because branding is the *number one* feature of its operating strategy.

If you can’t beat them, join them

Most cannabis stocks are investing millions of dollars to create their own brands from scratch. This strategy remains untested, and we’re still not sure whether consumers will flock to them. But you can ask yourself a simple question. What is more likely to succeed: a cannabis drink from Coke, or a cannabis drink from an unknown start-up?

Hexo Corp (TSX:HEXO)(NYSE:HEXO) is betting on the latter. That’s why it’s ditching independence altogether and instead partnering with existing brands that consumers already know and love. It needs to split the profits with the partner, but that’s a small price to pay for instant credibility and recognition.

In 2018, it forged a partnership with **Molson Coors Canada Inc.** (TSX:TPX.B) to co-create cannabis beverages. Do Canadians already know and love Molson? You bet.

This month, the joint venture is expected to release its first products, proving that Hexo can execute once a partnership is formed, which should help it secure more partnership in 2020. Hexo management has pinpointed other consumer segments like sleep aids, cosmetics, and edibles as potential opportunities.

As the only cannabis platform company with infrastructure specifically built for external partners, Hexo can capitalize on every pot opportunity that emerges over the next decade.

The model is still being validated, but that’s why shares trade at such a measly valuation. In 2020 and beyond, as its partnerships gain traction, this stock could have more upside than its multi-billion dollar peers.

CATEGORY

1. Cannabis Stocks
2. Investing

POST TAG

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TICKERS GLOBAL

1. NASDAQ:HEXO (HEXO Corp.)
2. TSX:HEXO (HEXO Corp.)
3. TSX:TPX.B (Molson Coors Canada Inc.)

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