Why NOW Is Your Best Chance to Buy Pot Stocks

Description

Last year was rough for pot investors. Most cannabis stocks fell by more than 50%. More than $10 billion in value was destroyed in a matter of months. Long gone were the days of 2018, when every pot stock was soaring to new heights.

While the cannabis bear market left many investors scarred for life, it should've been expected. Every emerging opportunity undergoes a volatile boom and bust period. These phenomena are so common that they have a name: the Gartner Hype Curve.

Hype curves describe how new markets take time to fully mature, even though investor interest peaks early. Consider the internet. In the late nineties, dot-com stocks were hitting ridiculous levels.

The impending crash forced a vast number of those high-flyers into bankruptcy. Yet two decades later, many of these internet stocks have become the largest companies on the planet, commanding *trillions* in market value.

While the cannabis market is certainly a different beast, its compressed hype cycle of 2018 and 2019 will likely become a footnote in the story of its long-term evolution. If you want to take advantage of this global growth opportunity, 2020 could be your best chance.

What we learned

Here's the number one thing we learned in 2019: the ultimate value of your investment will hinge on the price you pay. It doesn't matter if a stock is compounding sales at 40% every year for a decade. If you'd paid a price that implied 50% annual sales growth, you may still lose money.

Pot stocks are no different. Demand forecasts continue to outpace expectations, but that doesn't mean you should pay an infinite price for these companies. Valuation has always mattered. Pot investors relearned that lesson in 2019.

The next big lesson was to avoid commoditization. In 2019, **Tilray Inc** dropped after pricing fell off a cliff. The competition sank lower after they also reported weak pricing.

Marijuana isn’t corn, but they have more parallels than most appreciate. In general, both are commodities, and producers that can attain the lowest pricing will win. We’ve only just begun the race to the bottom.

Where to invest

The pot bear market has finally brought valuations down to reasonable levels. Previously a multi-billion dollar company, **Green Organic Dutchman Holdings Ltd** now trades at just $220 million. Still, sales are expected to reach $75 million in 2020.

TGOD stock may be a worthwhile speculative bet, but it’s not your best option. The company is still a pure-play grower, although it’s working to expand its brand efforts to avoid commoditization.

An investment in Green Organic is a bet that it can create brands that customers feel intense loyalty to. That’ll be difficult to do from scratch.

Other pot producers have taken a different approach.

Cronos Group Inc has partnered with $100 billion tobacco giant **Altria Group Inc,** which has some of the best-known brands in the world.

Marlboro is a perfect example. Cronos should be able to use Altria’s capital, influence, and brand expertise to fight the continual onslaught of commoditization.

Similarly, **Canopy Growth Corp** partnered with alcohol distributor **Constellation Brands, Inc.**, which owns the rights to popular beverages like Modelo and Corona.

If you want to bet on new product categories, this looks like your best bet. Global alcohol sales exceed $1 trillion per year. Growth for cannabis beverages is just getting started.

There are plenty of pot bargains to be had following the steep industry-wide decline. Balance your risk-reward potential by choosing companies with the best chance of creating brands that consumers know and love. That’s the best way to combat pricing declines.

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