TFSA Investor: 2 Reasons to Avoid Marijuana Stocks in 2020

Description

The marijuana sector sizzled during the first quarter of 2019. Hysteria produced nearly 70% gains for **Canopy Growth** (TSX:WEED)(NYSE:CGC), **Aurora Cannabis** (TSX:ACB)(NYSE:ACB), and other industry players. TFSA investors were ready to bet on a sector seen to be worth US$150 billion in the next 10 to 15 years.

Sadly, the next three quarters turned out to be horrendous, not just for Canopy and Aurora but for the entire industry. The significant declines in market capitalization and sharp drops in prices are red flags. Thus, weed stocks are far too risky to place in your TFSA in 2020. You could incur large, permanent losses if you don't heed the advice.

Tall odds

Investors who placed money on Canopy Growth in early January 2019 are losing by 45.31% today. The company reported losses of more than US$1 billion in each of the first two quarters of fiscal 2020. Although the stock's gain year to date is 15.78%, the situation remains unstable.

Canopy is the second-largest cannabis producer at peak capacity with a presence in Canada and 16 other countries abroad. But the acknowledged industry leader is draining investors of money. The hiring of a new CEO is also no guarantee that the future will be rosy.

I need to see Canopy deal with three crucial components before I will consider investing. The company should start re-accelerating revenue growth, stabilize profit margins, and stop the bleeding or reduce net loss.

The bullish sentiment on Canopy Growth is unlikely to return anytime soon. Slowing growth and concerns over profitability remain roadblocks. Despite the predictions of some analysts that Canopy could lead a sector rally in 2020, I would instead steer clear of this weed stock.

Precarious situation

Aurora Cannabis was a big letdown last year. The largest cannabis producer at peak capacity lost over $7 billion in market value. After a series of acquisitions as far back as August 2016 and the hiring of strategic advisor Nelson Peltz, the company is facing the possibility of a massive write-down.

Since the cash position cash is not sufficient to fund many of its ongoing expansion projects, Aurora might realize only 50% of its peak production potential. The company has no choice but to stop construction projects in several of its largest cultivation facilities.

At present, only the Aurora Sun facility in Alberta is operating. The halting of construction projects meant losing 320,000 kg of run-rate peak annual output. Likewise, its Exeter facility is on selling block.

If Aurora completes the sale of this one-million-square-foot vegetable-growing greenhouse, it will eventually lose its “biggest-cannabis-producer-in-the-world” status. This depleted cannabis producer is hanging by a thread.

Picking up the pieces

Canopy Growth and Aurora Cannabis are picking up the pieces after the carnage in 2019. Either one or both might not even recover. Also, weed stocks are no longer hot choices and have no long history to show.

TFSA investors are better off building a diversified portfolio of tried-and-true stock investments this year. It will take a while before the marijuana industry in general delivers the desired results.

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