CAUTION: Marijuana Stocks Could Be Hazardous to Your Money in 2020

Description

2019 was an exciting year for the **Toronto Stock Exchange.** The overall TSX Index saw the market trading at all-time highs. At the same time, the marijuana sector experienced quite a bit of unpredictability over the past 12 months. The first quarter of the year saw legal weed company stocks reach massive highs.

The anticipation for the marijuana boom saw flocks of investors buying shares of marijuana producers like **Canopy Growth Corp** (TSX:WEED)(NYSE:CGC) and **Aurora Cannabis Inc.** (TSX:ACB)(NYSE:ACB). The industry produced an overall gain of nearly 70%, and investors were set to purchase the stock from both companies.

At the rate the sector was going, analysts expected the marijuana industry to become worth more than US$150 billion in the next decade. The next three quarters, sadly, turned out to be horrific for the entire cannabis industry.

Many cannabis company shares are down by more than 80% from 52-week highs. The significant decline in share prices and market capitalization are huge red flags. You might feel inclined to buy marijuana stocks on weakness.

Today I'm going to discuss why you need to avoid marijuana stocks like the plague.

Canopy Growth

Canadian investors who bought shares of the Canopy Growth stock at the end of April 2019 have lost a massive 58% of cash due to the decline.

Trading for $29.37 per share at writing, the Canopy Growth stock is a far cry from its 52-week high valuation of $70.98 per share. The company reported losses of over US$1 billion in both Q1 and Q2 of fiscal 2020.

At the time of writing, the stock could be up 12.40% year to date only a month into 2020. In terms of production capacity, the second-largest cannabis producer has operations in Canada and 16 other countries. Despite its international presence, the company is unable to find short-term or long-term profitability.

Canopy needs to accelerate revenue growth, stabilize its profit margins, and make an effort to mitigate its net loss effectively. Until then, the stock is likely to continue sending investor money down the drain in 2020.

Aurora Cannabis

Aurora was a massive disappointment throughout 2019. At its peak production capacity, ACB is the largest cannabis producer in Canada. It lost over $7 billion in market value. A marijuana stock expected to lead the charge for a rally, ACB has declined by almost 80% from its 52-week high in March 2019.

The stock is trading for $2.66 per share at writing, significantly below its all-time high of $13.67 per share. Aurora doesn't have the kind of cash position to fund its ongoing expansion projects.

It might be able to achieve barely half of its intended production capacity. It might end up with no choice but to stop working on its projects for more extensive cultivation facilities.

Its Aurora Sun facility in Alberta is the only operational facility right now. If the company ends up halting its construction of production facilities and sells off its Exeter facility, it will lose its status as the most significant cannabis producer by peak capacity. The stock is on thin ice and unlikely to reach profitability this year.

Foolish takeaway

The marijuana carnage of 2019 has left several cannabis companies in tatters. There is a chance that neither of the companies can recover in the short term.

The fact that weed stocks don't have a long history to restore investor trust and faith should be an indication enough that it is safer for you to stay away from the shares of both companies.

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2. NASDAQ:CGC (Canopy Growth)
3. TSX:ACB (Aurora Cannabis)
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