Pot Stock Buy Alert: What Long-Term Cannabis Investors Need to Know

Description

Even in its short history, Cannabis investing has been full of victory and defeat. In 2018, every pot stock was soaring in value. By 2019, the fortunes were reversed, with the majority of pot stocks falling by at least 50%.

Here's what you need to know: this ride is far from over. In 2020, we could see another upward surge. Just be careful, as the impending bull market will look *very* different from past trends.

Here's what happened

To understand where the cannabis market is going, you need to understand how we got here.

The Cannabis Act of 2018 paved the way for full legalization of marijuana across Canada. In 2019, hundreds of dispensaries opened across every province, creating a multi-billion dollar market overnight.

To supply this new market, dozens of marijuana producers were spawned, hoping to ramp up production as quickly as possible. Reading the annual reports of pot companies in 2019 screamed one consistent message: grow, grow, grow.

Capital flowed into whichever pot producer said that they were growing output the fastest. Several companies, with hardly any growing experience at all, were soon touting facilities that could grow more than 20,000 kilograms of pot annually. A handful of stocks reached multi-billion dollar valuations. Some exceeded $20 billion market caps, despite having little to no sales.

The fallout should have been obvious. Pot is different than other commodities like corn and wheat, but at the end of the day, it's still a crop that nearly anyone can grow with ease. And like any commodity, rising supply pressures pricing.

At the start of 2019, I warned investors about the biggest risk that no one was talking about: commoditization. "Today, it's not very profitable to grow staples like tomatoes, beans, rice, or cabbage," I wrote. "In another decade, there's a chance that growing cannabis won't be wildly profitable either. That reality could crush nearly every cannabis stock."

Commoditization came quicker than expected. That summer, **Tilray** stock sank after pricing fell by more than 20%. The cannabis bear market had begun.

How to profit

The recent bear market was tough to endure, but if you're looking to put money to work, there's never been a better time. Several companies are still targeting multi-billion dollar opportunities, yet are trading at pennies on the dollar.

Consider **Hexo Corp** (TSX:HEXO)(NYSE:HEXO). The company once had a valuation of nearly $3 billion. Today, the market cap is just $520 million. Few investors or analysts are still paying attention, but they should.

Hexo was always playing the long game. Instead of ramping pot production as quickly as possible, it focused on securing long-term partners with existing customer bases. For example, it partnered with **Molson Coors Canada Inc.** to co-create cannabis-infused beverages. Their first products should hit the shelves this month.

Hexo is looking to replicate this partnership in other categories like sleep aids, cosmetics, edibles, and more. The strategy is simple: leverage the power of existing brands to accelerate sales growth, preserve pricing power, and stave off commoditization.

In the next pot bull market, companies that can create world class brands with high margins will see the biggest gains. While they're currently ignored by most, stocks like Hexo are primed to win in the year to come.

CATEGORY

1. Cannabis Stocks
2. Investing

POST TAG

1. Cannabis

TICKERS GLOBAL

1. NASDAQ:HEXO (HEXO Corp.)
2. TSX:HEXO (HEXO Corp.)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Cannabis Stocks
2. Investing

Tags

1. Cannabis

Date
2025/07/02
Date Created
2020/02/23
Author
rvanzo