



2 Pot Stocks to Buy, 1 to Avoid

Description

In 2018, every pot stock skyrocketed in value. In 2019, every pot stock *plummeted* in value. This year, expect the results to be somewhere in the middle, with some stocks performing well, while others struggle to survive.

Why will 2020 be a mixed bag for cannabis investors?

Looking at the results in 2018, the market was clearly rushing to supply the marijuana market with capital. This market had decades of pent-up demand, so it wasn't surprising to see valuations pop higher and higher.

By 2019, however, we learned a few [key things](#) about how this market will shake out — most notably surging industry-wide production. As with any crop, commoditization was unavoidable. By the summer, large producers like **Tilray** were warning that selling prices were on a steep decline.

Success in 2020 will hinge on one major factor: the ability to avoid commoditization. If a pot stock can't figure out how to protect pricing power, the market will continue to be skeptical. If, on the other hand, a company can preserve profitability, expect it to attract plenty of new money.

Which stocks will succeed in 2020? Which stocks will fail? Let's find out.

Stick with proof

As we covered, preventing commoditization will be key to earning back the market's trust. How do you prevent commoditization?

Think about **Coca-Cola Co**, one of the most successful stocks of all time. What's in a bottle of Coke? Mainly commoditized ingredients like water and sugar. Yet somehow, Coca-Cola is able to sell five cents of commodities for a dollar.

The magic is branding. You can buy the individual ingredients anywhere, but you can only buy the

combined product from Coca-Cola.

To succeed in the years ahead, pot companies need to emulate this success, creating cannabis brands that consumers know and love. Two stocks have a lead.

The first is **Cronos Group Inc** ([TSX:CRON](#))([NASDAQ:CRON](#)) due to its multi-billion dollar partnership with **Altria Group Inc**.

With a market cap of \$100 billion, Altria has the capital and influence necessary to create the future of cannabis products. Altria also has a proven history of successful branding. Its line-up, which includes Marlboro cigarettes, controls more than half of the U.S. market.

The company has turned commoditized tobacco into industry-leading brands. It therefore seems reasonable to expect it can do the same for marijuana through its partnership with Cronos.

Hexo Corp. ([TSX:HEXO](#))(NYSE:HEXO) also has a lead when it comes to branding given it completely abandoned building its own brands. Instead, it's partnering with existing companies that consumers already trust. For example, it expects to launch a cannabis beverage that it co-developed with **Molson Coors Canada Inc**.

This year, Hexo wants to secure more partnerships with Fortune 500 companies to co-develop cannabis products. Working directly with established brands removes a lot of execution risk when it comes to protecting pricing power.

Avoid the lost

Green Organic Dutchman Holdings Ltd (TSX:TGOD) was once a multi-billion dollar business. Today, it's worth just \$155 million. What happened?

Green Organic originally partnered with **Aurora Cannabis Inc**, but last year, the deal fell apart, leaving the company upstream without a paddle.

In 2020, sales should ramp significantly, but without a branding push, Green Organic will largely be selling on the open market. That's a bad sign as prices commoditize.

Can Green Organic spin its own brands that create brand loyalty and high margins? Possibly, but without a proven partner like Hexo or Cronos, the future is very unclear.

Management is trying to sell investors on rising pot production, but if successful branding doesn't follow, TGOD stock could remain depressed.

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