1 Pot Stock to Buy and 1 to Sell During the Bear Market

Description

Pot companies surged in 2018. Many stocks doubled or tripled in value. By 2019, fortunes reversed, with nearly every marijuana producer falling by at least 50%.

2020 was supposed to be a rebound year. The coronavirus has the potential to upend that promise. The market correction has turned into a full-blown bear market, pushing down equity prices across the board, including pot stocks. This has created a lot of opportunity but also plenty of risk.

As markets crash, certain pot stocks are poised to benefit. Others are facing a world of pain.

Don’t buy stocks like this

Demand may be on the rise, but the pot industry is in trouble.

Last summer, **Tilray** spooked the market when it revealed pricing had dropped by double digits. Other producers soon reported the same thing. This shouldn’t have been a surprising revelation if you’d been paying attention.

“Commoditization could be a lot closer than you think,” I wrote months prior. “That reality could crush nearly every cannabis stock.”

Your pot stocks will suffer if they can’t figure out how to differentiate themselves from the competition. Think of how **Coca-Cola** can sell you a bunch of commoditized ingredients for a large mark-up. Branding will be key, but only a few companies will succeed.

The other point of trouble is financing. The bear market will almost certainly roll-back funding opportunities for smaller players, especially ones in early-stage growth. That can be a deathblow to a cannabis start-up that’s still losing money. Even the larger players may need to sell stock and permanently dilute shareholders.

At this point, you shouldn’t be buying stocks like **Green Organic Dutchman Holdings** (TSX:TGOD).

This company has zero large partners to rely on. That reduces fundraising opportunities and limits the ability to brand products. Considering Green Organic expected to raise new capital by next quarter, the stock could be in for a harsh reckoning. With a market cap of $100 million and a need for immediate funding, this is not the stock you want to bet on.

Focus on these stocks

Which stocks can overcome the commoditization and fundraising challenges? Pot producers with big-time partners.

Take **Cronos Group** (TSX:CRON)(NASDAQ:CRON) for example. With a $2.3 billion market cap, it’s already better prepared versus smaller competitors in terms of raising fresh cash. Selling debt, or even more stock, is still a feasible option.

But the advantages of Cronos go much further. In 2018, it sold 45% of the company to tobacco giant **Altria Group**, which has a $70 billion market cap. This immediately infused Cronos with roughly $2 billion in cash, much of which remains in the bank. Cronos can easily ramp down growth initiatives and focus on cash preservation, with zero dilution necessary.

Long term, Cronos can leverage Altria’s proven branding capabilities. For example, Altria now controls around half of the U.S. cigarette market through fully owned brands like Marlboro. If any firm is capable of creating the Coca-Cola of pot, it would be the Cronos-Altria partnership.

There are *even better* pot stock bargains on the market today, but before you buy, make sure that they pass the financing and commoditization tests.

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