ACB Stock: Why You Shouldn’t Buy Aurora

Description

Since cannabis stocks started being listed on Canadian exchanges, there has been strong interest from investors. One of the top stocks since day one, which has been an industry leader, is **Aurora Cannabis** (TSX:ACB)(NYSE:ACB).

Aurora is one of the biggest cannabis stocks in Canada; though, like the rest of the industry, it’s seen its share price plummet over the last 12 months.

It currently trades more than 90% off its 52-week high, which could present a significant opportunity for long-term investors.

Aurora is a great stock to buy if you need exposure to businesses selling consumer discretionary items.

Although it does sell medical cannabis, the main reason investors are buying it is for the growing recreational market. So, because of this, cannabis stocks should be considered more discretionary.

In this current environment, with so many people out of work for an indefinite period, consumer discretionary businesses are going to have a hard time over the next few years. So, is ACB stock a buy today?

Consumer discretionary stocks

Consumer discretionary stocks can thrive when the economy is booming, and people have money to spend. However, for those out of work, the priority each month is going to essential items.

Even once we have emerged from this situation, if we are in a recession for a prolonged period, consumer discretionary businesses could see lower sales for a while.

Part of this is due to the massive amount of debt consumers had before the pandemic even started. But now, with many stuck at home, average debt levels are likely going to increase.

This is the risk of buying any consumer discretionary stock in this environment, not just ACB. Having said that, you should still have some exposure in your portfolio, even if you're underweight.

Why you shouldn't buy ACB stock

If you already have a significant amount of consumer discretionary stocks in your portfolio, you probably shouldn't buy ACB.

It's vital that when investors think of diversification, it's more than just owning different stocks.

You need to own businesses from different sectors. And even then, you still need to make sure you aren't exposing your portfolio to one consumer group.

For example, if you owned a retail, entertainment, hotel, and restaurant stock, you may think you're well-diversified in four different industries. And while that may be true, all four of those industries are consumer discretionary industries. This essentially exposes your entire portfolio to consumer's income levels.

When you should buy ACB stock

If you don't have any consumer discretionary exposure and want a growth investment, Aurora could be a great choice. However, even if you do own consumer discretionary stocks, ACB could still be a buy.

For example, if you believe in ACB as a solid long-term growth stock more than you believe in your other investments, then you may want to substitute them.

Although you shouldn't be buying and selling stocks often, that shouldn't stop you from replacing one stock with another. If you come across a stock that's more attractive than one you own but is in the same industry, it may be prudent to replace that business.

ACB is one of the leading cannabis stocks on the **TSX**. It has strong operations that allow it to scale and grow cannabis for extremely cheap. The company has already got its cash cost per gram below $1.

Furthermore, it has sales and operations in more than 20 countries and has over 90,000 medical patients. The company is also at the forefront of cannabis research, with more than 100 patents already filed in its short existence.

Bottom line

If ACB is a stock that's appealing to you, and you aren't already overexposed to consumer discretionary spending, then Aurora is a buy today. However, for investors who already have enough exposure to the sector, then that would be a good reason not to buy Aurora today.

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