



## This Pot Stock Can Rise 10 Times in Value

### Description

In 2018, pot stocks were going gangbusters. Several new startups attained billion-dollar valuations. The party ended in 2019, when the majority of the industry fell by more than 50%. Some smaller competitors lost 90% of their value.

What does the future hold for 2020? So far, the results have been [mixed](#).

The worst of the 2019 bear market is now over, but the coronavirus added new headwinds that roiled marijuana producers. Demand is on the [rise](#), but pricing continues to slip. The COVID-19 crisis, meanwhile, adds new liquidity risk. There's a chance that some operators could go bankrupt this year.

Counterintuitively, this is one of the *best* times to invest in pot stocks. Despite the volatility, we now know significantly more about how the market will ultimately take shape. Predicting the winners has never been easier.

If you connect each clue, it leads you to a tiny Canadian producer that could rise *10 times* in value. Its recent history already proves that it's capable of such a dramatic rise.

### Pay attention to this

In April of 2019, just before the devastating cannabis downturn began, I highlighted the number one risk factor for pot stocks: commoditization.

"At the end of the day, cannabis companies are simply growing crops. The planting and harvesting cycle isn't too different from corn, tomatoes, or soybean. Today, it's not very profitable to grow staples like tomatoes, beans, rice, or cabbage. In another decade, there's a chance that growing cannabis isn't wildly profitable either. That reality could crush nearly every cannabis stock."

That reality for pot stocks came faster than anticipated. Oregon was reportedly drowning in one million

pounds of excess supply. Pricing was crashing across the continent. The promise of profits evaporated seemingly overnight.

But commoditization isn't a death sentence. Consider **Coca-Cola**. The company sells completely commodified ingredients, yet it commands a significant price premium versus the cost of the underlying parts. The secret is differentiation. In this case, that was achieved through branding.

Most pot stock CEOs now understand what's happening, and what must be done.

"I think it will become commoditized over time," warns **Aurora Cannabis** CEO Terry Booth. "It will always be a cash crop, because it is very difficult to grow, but there's going to be a lot grown."

"The key for any company to avoid being pulled into a commodity market is a differentiated product," says Greg Engel, CEO of **Organigram**.

## This pot stock can win

**Hexo** ([TSX:HEXO](#))(NYSE:HEXO) is prepared for commoditization. In fact, it built its entire strategy around that challenge.

Instead of growing as much marijuana as possible, this pot stock opted to build the industry's first cannabis platform. Any outside company can plug into Hexo's infrastructure to co-create THC products on-demand.

For example, **Molson Coors** and Hexo plan to launch a co-branded beverage product in 2020. Hexo lends the expertise and resources related to cannabis, while Molson contributes its brand-name recognition and marketing weight. This strategy should outperform the products of unknown marijuana startups.

In the years to come, Hexo plans on replicating this partnership across several other categories, including cosmetics, sleep aids, and edibles. This should prove a \$10 billion market in North America alone. Despite its early-mover advantage, Hexo commands a market cap of just \$500 million.

In 2019, when enthusiasm for pot stocks was at a fever pitch, Hexo stock was worth *10 times* the current value. It will take time to regain that position through actual financial performance, but this decade, expect shares to retest their former highs.

### CATEGORY

1. Cannabis Stocks
2. Investing

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1. Cannabis

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1. NASDAQ:HEXO (HEXO Corp.)

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rvanzo

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