



This 1 Factor Could See Cannabis Stocks Rally in 2020

Description

While it might not look like big news, it did cause a minor rally toward the end of June. **Aurora Cannabis**' proposed downsizing efforts pushed the needle into the green late last month. The moves weren't big – all were below 10% – but **Tilray**, **Cronos Group**, **Canopy Growth**, **Aphria**, and **Organigram** were all up by single digits.

Why? Because cannabis investors have come to appreciate capex reduction.

Downsizing is the new upscaling

Among the highlights of Aurora's [business reboot](#) are operation reductions and a 25% sales and administrative staff cut. There will also be a 30% production staff cut over the next couple of quarters. However, it should also be noted that production will be ramped up in Europe.

Indeed, cannabis investors should be keeping an eye on European demand as an indicator of outperformance potential in Canadian cannabis stocks.

This focus on reducing capex and streamlining operations has pleased cannabis investors in the past. Look at Aphria's move to the **NASDAQ**, for instance — an act that arguably fits this pattern and was also rewarded by investors.

The pot stock crash may benefit strong businesses

Market corrections certainly have their advantages. Growth investors can forage for wider margins. Value investors can snap up oversold bargains. Contrarians can take advantage of a reset to ride momentum generated by disrupted sectors.

In the case of cannabis stocks, a marijuana market correction has brought its own boons. For instance, investors are beginning to see which names are actually of value.

The glimpse offered by last month's mini-rally is illuminating. Cannabis investors have become ever more discerning when it comes to quality. For cannabis names, "quality" now translates not only as profitability, but also cash-richness and viability.

In summary, downsizing is a key indicator of viability. The markets are rewarding this strategy, and reflected stocks could rise later in the year if the benefits of streamlining bolster earnings reports.

The top cannabis stocks to watch this year

Investors looking to profit from cannabis investing have switched from the near-term momentum to the [longer-term capital appreciation](#) model. Indeed, 2020 has seen a very different asset type take over from cannabis' steep upward momentum: gold stocks.

Put it down to the pandemic (and a throttled retail environment). And while there is certainly still a market for cannabis, it's clearly fuelled by a limited amount of demand.

It's incredible to think that *any* cannabis stock could still be overpriced after the comprehensive pummeling they've had in the last couple of years. But overvalued they are.

For that reason, downside is the new upside when it comes to cash-rich names. Take Aurora, Cronos, and Canopy, for example. These three stocks are projected to lose around 22%, 31%, and 3%, respectively according to consensus price targets.

This makes Canopy the best option of the three. In today's market, that [adds up to a win](#). Of course, it's a very different story from the pre-legalization market. Back then, investors still believed that astonishing production figures and eye-catching inter-industry partnerships were enough to take on the black market.

Indeed, tangible products notwithstanding, it's still tempting to see legal cannabis as another dot-com bubble.

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