



Marijuana Investors: Time to Load Up on Marijuana Stocks?

Description

Remember marijuana stocks? Remember when they were the hot topic of discussion and the star performers? In 2018, cannabis stocks were surging as investors priced in huge growth and potential. Today, times have certainly changed. Investors have gone from talking about the seemingly unlimited potential of marijuana stocks to almost complete silence.

Like some other writers at Motley Fool Canada, [I wasn't a believer back then](#). Too much was being priced into marijuana stocks far too quickly. **Canopy Growth Corp.** ([TSX:WEED](#))(NYSE:CGC) stock surged 651% from December 2016 to October 2018. In fact, the sector as a whole saw similar gains. But today, after all the euphoria has faded, marijuana stocks are left in the dust. And I'm paying close attention. But why, you ask?

It all boils down to a few basic investing principles. I will borrow one of Warren Buffett's quotes to explain.

Warren Buffett has warned us against herd mentality

The investing guru has said, "Attempt to be fearful when others are greedy and [greedy when others are fearful](#)." Back in 2018, investors got greedy with marijuana stocks. Today, the bubble has burst. Investors are now more fearful. The reality of the challenges of the marijuana industry have taken centre stage.

Marijuana stocks are currently out of favour

It is not a big revelation to say that marijuana stocks are out of favour. The marijuana bubble burst long ago. Because of this, their valuations are much more reasonable. Not cheap, just more reasonable. Canopy Growth stock currently trades at a price to sales multiple of 23 times. This is still not cheap but it's a far cry from multiples of north of 100 times. The stock has tanked more than 62% from its 2018 highs, and is flat for the year.

The buyers for cannabis stocks have thinned out, as evidenced by lower trading volumes on the stocks. While the road ahead will not be an easy one, expectations are finally more realistic.

The marijuana industry is a growing industry with a significant market

Moving away now from investor sentiment, expectations, and valuations, let's look at the fundamentals.

The market for cannabis and cannabis products remains big. There's recreational marijuana use, where people use marijuana in a similar fashion to the way they use alcohol. There's also the market for marijuana from an alternative health perspective. And finally, we have the medical marijuana market. This last one has more hurdles and challenges, but from a medical treatment perspective (i.e. Health Canada approved drugs), marijuana certainly has a future.

The current cannabis market size is a clear indication of the relevance of this market. The bustling black market is also a clear indication of this. Finally, current growth rates are a good indication of what lies ahead. In 2020, one analyst estimates that recreational cannabis sales alone will hit \$2.5 billion. This is more than double last year's number. 2021 sales will likely increase over 60%.

Motley Fool: the bottom line

Cannabis stocks like Canopy Growth stock have really been a volatile roller coaster ride. Today, the stocks are trading much lower than their highs. The cannabis bubble has decidedly burst. As such, Canopy Growth stock is more attractive today. It at least passes one of Warren Buffett's tests.

But this cannabis stock has yet to turn a profit, so the road ahead will continue to be risky. We must decide whether the potential reward compensates us for this added risk. At Motley Fool, we aim to help you decide.

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