



Cannabis Comeback? The Upside in TSX Pot Stocks Could Be Limited

Description

Cannabis stocks were off to a rocky start last week. Pundits were beginning to cast doubt on the “blue wave” that the press had been predicting. Indeed, the cannabis market itself hadn’t been showing too much faith, either. With the exception of the post-VP debate rally, investors seemed to be expecting a Republican win. The selloff in pot stocks immediately after the election highlighted this apparent confirmation bias.

But then things turned around, both politically and in the markets. Aurora saw some intense gains last week as the U.S. election [back-kicked like a mule](#). Joe Biden began inching his way to the front of the race. **Canopy Growth** recovered its losses for the week. **Aphria** then inked a deal that would take it deeper into the heart of the U.S. cannabis market. Friday saw **Aurora** sitting on approximate 70% gains, with Canopy at 9% and Aphria up 7%.

Be prepared for increased cannabis stock volatility

As a Biden presidency comes into focus, cannabis investors are seeing their investments rocket. But should you buy stocks that are spiking just because they’re spiking? The upside may be short-lived, and timing this space is likely to be treacherous given the uncertainty still marring the current economic environment. Longer-term marijuana investors have often seen events drive pot stocks higher only to drop off again just as quickly.

Several factors appear to be working Canadian pot stocks’ favour. Several U.S. states are moving towards legalizing the green stuff, which only adds to the resurgent growth thesis in this chewed up industry. Post-election, Aphria leapt into the week with a 7.2% spring in its step Monday morning. **HEXO** gained 10.4%, and Aurora was up 18.8%.

These cannabis stock gains are unlikely to be sustainable, though. There’s a number of reasons for this. There may be another boost in marijuana stocks come January when a new administration takes the keys to the White House. Aside from this, though, Canadian cannabis may slump again in 2021. Look no further than the [systemic issues](#) hounding the legal weed space in this country. These are

unlikely to be reversed quickly enough to meet rapidly changing market forces.

Competition is going to be high

There's also another reason why Canadian cannabis stocks could find themselves on the ropes in 2021. The cause? A legalized American cannabis space. The chances that our neighbouring cousins will "buy American" is reasonably high. The logical conclusion is that Canadian cannabis could be outcompeted on its own doorstep. While some names with U.S. exposure — such as Canopy — may still get a look-in, it could be a rough ride.

Investors may well wish to place speculative bets on the best-positioned TSX stocks for entry into the U.S. legal weed scene. However, doing so while they're rallying is a good way to increase capital risk in a portfolio. Instead, investors should wait for the market to cool off before beginning to build a position. While a bull run could be just about to begin, long-term Canadian cannabis investors might not want to get their hopes up.

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