



## Why Cannabis Stocks Could Go Parabolic in 2021

### Description

I think 2021 could turn out to be eerily similar to 2018 in the world of cannabis stocks.

That's right — the same 2018 that saw valuations skyrocket amid hysteria in the hyper-growth sector in Canada. Valuations are still high, but there is lots of room for optimism right now around marijuana stocks. Thus, I think companies like **Canopy Growth** ([TSX:WEED](#))(NYSE:CGC) could be some of the best-performing stocks on the TSX over the next 12 months. Here's why.

### “Blue sweep” extremely positive for cannabis stocks

In 2018, the driving force in the cannabis sector was Canadian legalization. I think 2021 could be a similar scenario, with legalization in the U.S. the focus. The size of this market is massive, and therefore I think the hype around U.S. legalization could be much more significant.

As I wrote about recently, the fact that the [Democrats won](#) the election in the U.S. is big news for cannabis investors. This is because it has been commonly thought that the only way cannabis would ever be legalized was with this political backdrop.

The Democrats also recently took control of the Senate on Wednesday, winning the two Senate seats needed for a House and Senate majority. This “blue sweep” in U.S. politics has incited optimism among investors hoping for legalization south of the border. A large percentage of the growth that is priced into Canadian cannabis stocks like Canopy right now is due to U.S. market growth. Accordingly, seeing a realistic runway for this growth allows long-term investors to continue to hold on through the volatility.

### Growth and fundamentals looking more bullish

Recent analyst upgrades in the cannabis sector has stoked interest among some investors with respect to the earnings potential of this nascent sector. Predictions of earnings growth as high as 20 times peers is big. Such predictions have once again invited speculators back to the party. I think it's

important for investors to remember that these stocks will continue to be volatile over the long term. Thus, having only a small percentage of one's portfolio invested in such stocks is a prudent strategy. Investors should focus on diversification and defensiveness right now. That said, growth has been the driving force behind equity returns of late.

Canopy Growth has seen its stock price shoot higher in recent days amid the same optimism. With a head start on many of its competitors in the U.S. market, Canopy could take the lead in this respect for TSX-related companies. Canopy is the most well-respected cannabis outfit in Canada and ought to be given a premium on this basis alone. Therefore, I think the quality of Canopy's assets and the diversification this company provides is bullish for long-term investors.

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1. Cannabis Stocks
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## TICKERS GLOBAL

1. NASDAQ:CGC (Canopy Growth)
2. TSX:WEED (Canopy Growth)

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