



Don't Forget Pot Stocks! 1 High-Upside Investment for 2021

Description

Pot stocks raged in 2018. Many businesses exploded in value several times over. Then the 2019 bear market erased nearly all the gains. By 2020, the COVID-19 crisis forced many to forget the industry altogether.

Now is the perfect time to strike.

Pot stocks will rise again

When Canada legalized recreational marijuana nationwide, the market went bananas. Within months, every cannabis stock shot higher, some by 1,000% or more.

Many analysts knew the bull market would eventually disappoint.

"While some pundits would suggest that this is nothing more than a healthy pullback in an otherwise gangbusters growth industry, I've begun to lean decisively toward the opinion that marijuana stocks simply won't live up to the hype," [wrote](#) Fool contributor Sean Williams in 2018, just as the slide began.

His biggest concern with pot stocks regarded pricing.

"History says oversupply will decimate the per-gram price for dried cannabis," he warned. "Though we've never seen an industrialized country give the green light to recreational weed before, we have seen a handful of U.S. states do so — and the result has been the same in pretty much every instance thus far."

In hindsight, we know this prediction was spot on. By 2019, every cannabis business in the country was trying to ramp production as fast as possible. When that new supply came online, prices [plummeted](#), crushing any chance for profitability.

Here's the thing: pot stocks are ready to rise again.

My top pick for 2021

During the last cannabis bull run, investors focused on raw production. In the *next* bull run, they'll focus on valued-add products. No pot stock is better positioned than **HEXO** ([TSX:HEXO](#))(NYSE:HEXO).

Consider the success of **Coca-Cola**. It sells completely commoditized ingredients that cost pennies to produce. Yet a bottle of Coke sells for many times the production cost. The magic is to add value to the packaged commodities through branding.

When pot stocks take off next, it'll be the value-add brand businesses that soar. This is exactly what HEXO was built for.

When the competition was busy ramping raw production, HEXO opted to forge industry relationships. Through strategic partners, the company believed it could beat other pot stocks to market with high-margin brands that resist price deterioration. One of its first partners was beer behemoth **Molson Coors**.

"They formed a new company with the partnership, named Truss," explained one analyst. "The new drink company already sells cannabis and CBD drinks throughout Canada. The next step for this enterprise is to introduce a CBD drink in Colorado, while using Molson Coors connections and distribution lines in America."

HEXO aims to replicate this partnership in other categories, including edibles, cosmetics, and sleep aids. By using existing brand names, this pot stock can ride the next wave of marijuana fervor, which should focus on value-add products.

Should you invest?

Pot stocks are notoriously volatile. Don't invest unless you're willing to take the long view.

With HEXO, the valuable pieces are in place. It should build on the Molson partnership this year, ramping sales while securing additional deals.

If pot stocks catch fire again this year, HEXO will lead the pack.

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