



## Got \$500 to Invest in Pot Stocks? Try These 2 Lower-Risk Cannabis Plays

### Description

The cannabis trade is heating up again, with Canopy Growth stock flirting with its highs before pulling back viciously, as though it had run into a brick wall of technical resistance in the \$60s. Don't say you weren't informed that the cannabis trade would heat up again, though. Through 2020, I'd pounded the table on pot stocks while they were down in the ditches, noting that the speculative appetite was likely to spread back to the cannabis scene in due time.

With people piling back into the cannabis trade on the back of U.S. legalization hopes and profitability guidance in Canopy Growth, I'd encourage investors to dollar-cost average into a position, rather than placing a lump sum in any one licensed producer (LP). After the latest pop, the valuations have become a tad on the frothy side once again, and I don't want to run the risk of losing my shirt once the multi-month momentum reverses.

That said, I do see [opportunities](#) within the cannabis universe that are not all-or-nothing, options-like bets. You don't need to spin the roulette wheel to improve your chances of obtaining outsized gains over the medium to long term. While there's no telling how much higher the popular LPs like **Canopy Growth** or **Aurora Cannabis** will go, I do think it's wise to think about playing with the house's money if you've seen your stake double over the past few weeks.

### Looking beyond the cannabis LPs for value

If you're like many investors who missed the post-election run in cannabis stocks, don't kick yourself. A pullback may be right around the corner in your favourite LPs.

In the meantime, I believe there's still value to be had with the marijuana retailers. As you may have noticed, there's a pot shop popping up all over urban city centres these days. You know how they say that there's a **Starbucks** or **McDonald's** on almost every street corner? The same could be said about pot shops these days. And while it's difficult for an individual pot shop to gain a durable competitive advantage in the now fiercely competitive cannabis retail market, I think one stands out to me as a future leader in the space.

While I wouldn't take it as far as calling the pot retailer the **Starbucks** or **McDonald's** of the cannabis retail space, I think the name has a world of growth ahead of it and a stock with a valuation that I believe is severely underappreciated. The pot retailer I speak of is **Fire & Flower Holdings** ([TSX:FAF](#)), a pot shop chain with a stellar omnichannel presence and a seasoned retail veteran standing in its corner with convenience store kingpin **Alimentation Couche-Tard** (TSX:ATD.B).

## The start of a budding partnership in cannabis retail

Fellow Fool Chris MacDonald and I are both huge fans of the Couche-Flower partnership and think it could pay massive dividends for both firms over the long run.

"According to the company's most recent quarterly statements, Couche-Tard has invested substantially in Fire & Flower, a cannabis retailer based out of Alberta. Inclusive of warrants, Couche-Tard owns approximately 15% of this company. That's no small piece of the pie. Couche-Tard appears to be looking to take this sector by storm, focusing on the downstream retail component of the cannabis supply chain." MacDonald wrote.

Indeed, a Couche-Flower tie-up is a "low-risk growth initiative" that, if successful, could see Fire & Flower evolve to become a leader in the lucrative cannabis retail scene. And if pot is legalized in the states, who knows what the future holds for Fire & Flower — a firm that's starting to build some real brand equity for itself.

## The Foolish takeaway for risk-averse pot stock investors

At 2.9 times sales, I find FAF stock to be a severely undervalued and underrated way to profit from the budding cannabis scene without having to risk your shirt on a white-hot LP. For those who seek even deeper value and indirect exposure to cannabis retail, Couche-Tard may be the horse to bet on while shares are trading south of 0.7 times sales.

### CATEGORY

1. Cannabis Stocks
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### TICKERS GLOBAL

1. TSX:FAF (Fire & Flower)

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