



## Why Cannabis Stocks Like Aphria (TSX:APHA) Crashed Last Week

### Description

Cannabis stocks crashed in the second half of last week. The **Global X Cannabis ETF** declined 22% from Wednesday to market close on Friday, following a year of consistent gains. The flash crash surprised many given that there weren't any major negative news coming out of the cannabis space when it happened. In this article I'll explore some possible reasons for last week's cannabis stock crash—with a particular focus on one of the biggest losers, **Aphria Inc** (TSX:APHA)(NYSE:APHA).

I'll start by looking at Reddit's involvement.

### Reddit may be the culprit once again

Surprise, surprise—another stock market boom and bust is being blamed on Reddit.

Earlier this month, Reddit's *WallStreetBets* (WSB) community was a hot topic, as its favourite stocks—**GameStop**, **AMC**, **Nokia** and **BlackBerry**—were surging in the markets. It was thought that the surge was largely attributable to Reddit promoting the stocks, which it took up as part of a crusade against Wall Street. With a community of over nine million, the forum certainly had enough reach to move markets. During the meme stock bubble, it probably did move them.

Now it's beginning to look like WSB repeated the same feat with cannabis stocks. Shortly after the "meme stock" craze fizzled out, WSB moved on to greener pastures; namely, cannabis. According to a [Global News article](#) from February 10, a popular WSB post promoted cannabis stocks like APHA and **Tilray** in an effort to help investors who lost money on GME earn some of it back.

According to Global, the post received 10,000 upvotes, suggesting that it reached a wide audience. The movement in APHA's stock is consistent with that. Before APHA's crash last week, it saw a sharp spike, rising 56% in just five days. Some attributed that to the company's [upcoming merger with Tilray](#)—but it looks like WSB pumping played a role as well.

## Fundamentals aren't amazing

It's not surprising at all that Aphria and other cannabis stocks tanked last week. It's consistent with the trend observed in WSB stock picks, which rise dramatically in a very short time frame before falling back to about where they were before. Basically, the stock keeps rising as long as Reddit stays interested and collapses when it moves on to something else. While it's impossible to say exactly how much of Aphria's trading volume last week came from Reddit, the stock's price moves do correlate with the frequency of cannabis posts on WSB.

There's also just the plain fact that Aphria isn't doing all that well as a company. In its most recent quarter, Aphria posted solid 33% revenue growth, but most of its other metrics were abysmal. The operating loss came in at \$43 million, the net loss was \$120 million, the comprehensive loss was \$122 million, and the six month cash outflow from operations was \$65 million. Most of these losses were increased from the previous year.

Like most cannabis stocks, Aphria is growing sales but posting ever larger losses. Investors will tolerate losses from high growth companies sometimes, but not if the losses are growing faster than sales. In Aphria's case, the losses are indeed outpacing sales. So its stock looks like a very risky proposition.

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