Bullet Dodged: 2 High-Profile Stocks That Tanked This Year

Description

The 2020 global pandemic opened buying opportunities in the **TSX**, with many high-profile stocks trading at deep discounts. While quite a number are delivering positive returns in 2021, a select few are tanking. You're fortunate if you did not take positions in them yet, or you would have lost money as of this writing.

Canopy Growth (TSX:WEED)(NYSE:CGC) and **Aurora Cannabis** (TSX:ACB)(NYSE:ACB), industry leaders in the marijuana sector, seem ready for a breakout following the U.S. presidential elections in November 2020. However, both weed stocks are in a tailspin in late February 2021.

From heavy cannabis producer to a CPG company

Shares of Canopy Growth soared to $66.21 on February 10, 2021, only to slide 29% to $46.68 on February 22, 2021. Still, current investors are up 39% on optimism the federal legalization of marijuana in the U.S. will come soon.

Valuations of cannabis companies soared like crazy when Canada legalized in 2018. However, the sector's boom did not happen, that it became unattractive ever since. The election of Joe Biden as the 46th President of the United States pushed weed stocks, including Canopy Growth, back in the limelight.

Key U.S. Senate leaders met with marijuana stakeholders in early February 2021. Senate Majority Leader Chuck Schumer, along with Senators Ron Wyden and Cory Booker, gathered feedback from various advocacy groups. After the discussions, the three senators plan to unveil draft reform legislation early this year.

Meanwhile, Canopy Growth laid off workers, shut down two massive greenhouses, and announced an $800 million write down in the next quarter. According to Canopy CEO David Klein, the company is right-sizing and improving financial performance.

For the largest shareholder, **Constellation Brands**, the sweeping overhaul should transform Canopy

Growth from a startup, heavy cannabis producer to a basic stock standard consumer packaged goods CPG) company.

Cash burn concerns

Aurora Cannabis shares rose 21% to $23.96 on February 10, 2021, but have fallen since. As of February 22, 2021, the share price is down 38% to $14.83. However, current investors remain up by 40% year to date.

The $2.92 billion cannabis producer is struggling to reach the road to long-term profitability. In Q2 fiscal 2021 (quarter ended December 31, 2020), Aurora's total net revenue increased by 23% to $67.6 million versus Q2 fiscal 2020. However, the net loss was a wider-than-expected $231 million. Notably, medical marijuana net revenue increased by 42%.

According to Aurora CEO Miguel Martin, the quarterly results were excellent. The initial rollouts of concentrates and vape products supported the core revenue strength in medical and consumer. However, many weed stocks are on fire in 2021 as Reddit traders that propelled **GameStop** are also moving to the cannabis space.

Some analysts worry about the continuing cash burn of Aurora. For now, the cannabis stock is speculative, and permanent gains are contingent on the full federal legalization of marijuana in the U.S. It might be better to sell the Aurora today before it tanks further.

Fragile sector

Canopy Growth and Aurora Cannabis are the leading weed stocks. However, they are not necessarily solid investment choices if you were to bet your money. The coming merger of **Aphria** and **Tilray** would create a powerhouse and the world's largest cannabis company. It's hard to pick a winner as the sector remains fragile.

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