This Pot Stock Can Survive (and Profit!) During a Market Correction

### Description

Pot stocks are crazy. In 2018, many marijuana businesses saw their valuations double, triple, or even quadruple. In 2019, however, most of those gains were wiped away during a nasty bear market.

Here's the thing: the industry has matured to a point where the risk is lower, but the upside is still *very* lucrative.

If you want to bet on pot stocks, there's never been a better time.



## How to profit with marijuana

You can make serious money with pot stocks. You just need to know where to look.

The first lesson is to avoid companies that simply grow cannabis. These businesses are like buying into a traditional farm. There's not much money in growing plants.

"Growing marijuana sounds exciting, but it's really not," I recently explained. "At the end of the day, cannabis is just like any other cash crop. It's largely a commodity, no different than potatoes or corn."

How do you avoid the commodity trap? Find pot stocks that specialize in branding.

**Coca-Cola** is a prime example of how a company can turn commodities into high-margin products through branding. The company's drinks are mainly sugar and water, yet they sell for steep premiums. That's because people want to buy a Coke, not a knockoff.

To succeed in this space, look for the Coca-Cola of cannabis. This business should be able to weather downturns better and have more upside during a market surge.

## My top pot stock

Looking for the Coca-Cola of pot? Here's your answer: **HEXO** (TSX:HEXO)(NYSE:HEXO).

In 2018, when pot stocks were going crazy, everyone was obsessed with raw production gains. Investors looked for which companies were growing output the fastest. But as we've learned, this was a red herring.

In reality, you wanted to identify companies that were branding their pot in differentiated ways. HEXO knew this was the winning strategy from the start.

"Cannabis is a brand business," explained the company's CEO. "We're not about commodity farming. We're focused on developing products that offer very specific experiences and are dose-controlled, shelf-stable and delivered to the adult-use market through non-prescription channels."

Instead of growing output as fast as possible, the company dedicated itself to establishing partnerships. That way, it could leverage brands that consumers already know and trust.

HEXO's partnership with **Molson Coors** is a prime example. Several years ago, it agreed to collaborate on a THC-infused drink for Canadian markets. The joint venture used HEXO's cannabis infrastructure but leaned on Molson Coors for its beverage know-how and seasoned brand.



Just ask yourself one question: Will Canadians prefer a cannabis drink from Molson Coors or an unknown pot startup? HEXO is betting on the former.

"HEXO understood long ago what the competition is now just figuring out. If you want to make sustainable profits, you need to have a brand consumers trust," I concluded last year. "That's why the company skipped straight to partnerships, leveraging brands that customers already know and love."

If you want to maximize your risk to reward payoff, HEXO is the pot stock for you.

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