

19:00 25 Oct 2018

## Pot stocks: a pause in the bull trend or a bursting of the bubble?

On October 17, 2018, Canada became the only member of the Group of Seven (G7) countries to officially legalize the adult recreational use of marijuana. It was supposed to be a day of celebration for cannabis investors and marijuana company executives alike.

Loui Anastaopoulos, the president of capital formation at TMX (the financial services company that runs the Toronto Stock Exchange), said this following the ringing of the opening bell that day by a group of cannabis executives gathered at the TSX:

"It's historic what we've done here, and we're proud to be sitting at the center of all this, to facilitate the growth of cannabis companies in Canada."

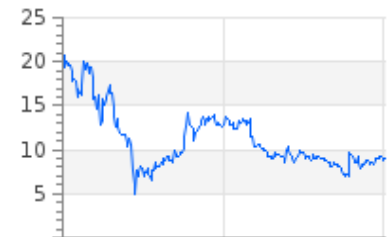
Unfortunately, Anastaopoulos' enthusiasm and pride were unable to prop up the many cannabis stocks momentum traders and growth investors have been bidding to dizzying heights since mid-August.

And in the three to four days following the full legalization of marijuana in Canada, the stocks of nearly all the most popular and well-known cannabis companies crashed between 15% and 30%.

**Price:** \$8.77

**Market Cap:** \$2.2 billion

### 1 Year Share Price Graph



September 2018 March 2019 September 2019

### Share Information

**Code:** APHA

**Listing:** TSX

<b>52 week</b>	<b>High</b>	<b>Low</b>
	21.58	4.76

**Sector:** Cannabis

**Website:** aphria.com

### Company Synopsis:

*Aphria, Inc. is a Canada-based company, which is engaged in greenhouse growing business. The Company is a medical marijuana producer. It provides medical marijuana to help reduce muscle spasms, appetite, or symptoms of anxiety and depression.*

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I'm a trader at heart. And that means never falling in love with the stocks or industries I'm trading, and always migrating to where the price action is best. And up until mid-October, the cannabis industry offered two months of picture-perfect price momentum.

But over the past week or so, that's begun to change.

Most cannabis stocks have broken beneath their short and intermediate timeframe moving averages, suggesting that a period of consolidation and base building is needed before they can re-test their recent highs.

So, if you've been actively trading cannabis stocks because that's where the momentum and growth have been since mid-August, then clearly you should be back on the sidelines.

But what about the true believers?

I'm thinking about the long-term cannabis investor that believes we're in the early innings of what the cannabis sector will ultimately evolve into.

If you view the cannabis sector through a multiyear lens, take heart in the fact that every successful secular growth story has endured bumps and bruises along the way to success. And the medical and recreational cannabis movement will be no different.

#### Calmer waters

In the two months leading up to the full legalization of recreational cannabis in Canada, stocks like Aphria (OTCBB: APHQF), Pyxus (NYSE: PYX), Canopy Growth (NYSE: CGC), and CannaRoyalty (OTCBB: ORHOF) rallied between 50% and 110%.

Now, as frustrating as it may be for investors that were late to the party, it's important to remember that stocks don't go up or down. They go up and down.

The bullish price action that surrounded the cannabis sector leading up to October 17, 2018, was initiated by investors, but then goosed and kicked into high-gear by momentum traders. And as momentum faded, so too did the traders that aggressively bid up the stocks.

But strong momentum doesn't have to be followed by an epic price collapse. Often, when momentum fades, stocks consolidate within an uncomfortably wide range until a new, more natural market is established. And that's what is beginning to take shape today.

#### The path forward

Short-term traders should remain on the sidelines, but continue to monitor the cannabis space for stabilization, base formations, and the eventual resumption of prior bull trends. But again, until price action improves, there's no reason for you to be aggressively buying stock.

Long-term investors, however, should be poring over their wish list and identifying companies that have been unfairly punished with the sector-wide rout. Ideally, you want to identify companies with scale, access to capital, and strong management teams. Companies like KushCo (OTCBB: KSHB), GrowGeneration (OTCBB: GRWG), iAnthus Capital Holdings (OTCBB: ITHUF), and Pyxus International (NYSE: PYX) are all names that fit this mold.

The bottom line is much like we saw with the internet in the late 1990s and early 2000s, many of today's cannabis companies will vanish or be gobbled up by larger operators over the next few years. And that means we need to be vigilant when it comes to our risk management with short-term trades, and thoughtful and research focused when it comes to longer term investments.

#### Be opportunistic

While many cannabis stocks have violated their short-term up trends and need time to heal, I do not believe we've seen a bursting or abandonment of the cannabis theme. And as new catalysts such as banking reform, more states legalizing the medical and recreational use of marijuana, traditional Wall Street firms begin issuing research, and positive data or opinions from the FDA on the benefits of CBD reach the light of day, we'll likely see buyers return to the space in spades.

Trusting that we're in the early innings of the Green Revolution means long-term investors should wait for stocks on their shopping list to be knocked down by sector-wide selling before putting money to work. So, when hyped-up and over-publicized catalysts like the legalization of recreational cannabis in Canada play out and stocks come under pressure, don't be afraid to lurk deep under the market and place opportunistic bids as the short-term momentum traders punch out and run for the hills.

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