



Is Your Pain Threshold High Enough to Invest in Canadian Marijuana Stocks?

Description

Marijuana stocks were all the rage several months ago, but now it seems investors are tired of the whole green rush and are looking elsewhere for quick profits.

Although all Canadian pot stocks have come back down to Earth, I still think an investment in marijuana stocks is a risky proposition. We're in the very early stages of an emerging industry, and investors are still paying a huge premium for something that may not live up to expectations.

If you're still keen on getting in on marijuana stocks after the bubble burst, then you may want to take a step back and look at your long-term investment strategy. Over the short to medium term, there's going to be a ton of volatility, and marijuana stocks could easily lose half their value over the course of a month, whether it be a brand-focused company like **Canopy Growth Corp.** ([TSX:WEED](#)) or an efficiency-focused company like **Aurora Cannabis Inc.** (TSXV:ACB) or **Aphria Inc.** (TSX:APH).

All marijuana stocks are heading in the same direction for now. But on the flip side, there's also the possibility that marijuana stocks could start rallying again, like they did last year.

It's impossible to tell when positive or negative headlines will be released, but one thing is for sure: it appears that all the good news and hype has dried up for now. If no positive headlines are released, I believe marijuana stocks will continue to drop by default as investors reach their pain thresholds.

What's your pain threshold?

Every investor needs to ask themselves that question before considering an investment in a high-risk, high-reward type of stock. If you can honestly stomach your investment posting double-digit losses in a given trading day, then you've got a high pain threshold, and you could probably form a more aggressive investment strategy to maximize long-term returns.

If you've never owned stocks during a recession, or if you've never experienced a double-digit percentage decline, then it can be hard to tell whether or not you'll be able to stomach volatility from marijuana stocks.

One thing is certain regardless of whether you're an aggressive or cautious investor: it feels good to gain, say, \$100 in a given trading session, but it feels so much worse if you lose that same \$100 in the next trading session. After all is said and done, you'll be at break even, but you'll feel terrible because the pain from a loss far exceeds that of the pleasure of a gain.

Takeaway

I would only recommend investing in marijuana stocks for the long term if you've got an extremely high pain threshold.

If you've got a medium threshold, then it may be enough to get you to buy the marijuana stock, but you'll probably dump the stock at a loss once the volatility becomes too much for you to handle.

Of course, you could trade marijuana stocks in the short term and do well, but here at the Fool, we take a long-term approach.

If you're an experienced investor that is not fazed by volatility, then you may want to consider picking up marijuana stocks using a dollar-cost averaging approach as marijuana stocks continue to bleed.

If you're not sure where to begin, then you may want to consider **Horizons Medical Marijuana Life Sciences ETF** (TSX:HMMJ) to start, but don't bet the farm on it.

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2. TSX:HMMJ (Horizons Marijuana Life Sciences Index ETF)
3. TSX:WEED (Canopy Growth)

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