



Cannabis Investors: 1 Horrifying Risk to Be Aware of

Description

Canadian cannabis stocks such as **Canopy Growth Corp.** ([TSX:WEED](#)), **Aphria Inc.** (TSX:APH), **Aurora Cannabis Inc.** ([TSX:ACB](#)) and **MedReleaf Corp.** (TSX:LEAF) have been surging back into the green of late as we gradually learn more about each province's legalization plans. While there's definitely a tonne of upside potential in the months leading up to nationwide legalization, there are also major political risks that could see cannabis stocks go up in smoke in a hurry.

Cannabis investing is really speculative, and if you're not used to high-risk, high-reward types of investments, then you should probably only invest the money that you're willing to lose in cannabis growth stocks. Canopy Growth Corp. lost nearly half of its value from peak to trough earlier in the year before partially rebounding in the latter half of the year. While such a decline may seem like a nightmare, I believe all cannabis stocks could suffer even larger losses in the absolute worst-case scenario.

What is the worst-case scenario?

Justin Trudeau and the Canadian Liberals have made it clear that they want to get marijuana legalized across the nation by July 1, 2018. Delays have already happened, and many premiers have been pushing for further delays in the legalization deadline, citing that there isn't enough time to address the potential issues that may arise.

There's no question that Canada is entering uncharted territories, but a great deal can be learned from U.S. states which have legalized marijuana. If the legalization date is pushed back further, then it's likely that delays will become the norm, and the general public will lose all credibility in deadlines put forth by the Liberals. Who knows? Justin Trudeau's tenure might conclude before legalization comes to fruition, and if the Conservative government is elected, then legalization will probably be completely off the table. That would mean all Canadian cannabis stocks would suffer a catastrophic crash with shares losing potentially more than 90% of their value over a very short period of time.

With any Canadian cannabis stock or ETF, you're making a speculative bet that legalization will eventually come to fruition within the next few years. More delays may happen, and the July 1, 2018,

deadline may be pushed back to 2019 and beyond. If that happens, then all eyes will be on the 43rd Canadian federal election. If the Liberals lose, then things could get really ugly for shareholders of cannabis stocks.

Bottom line

The potential gains are massive, but so are the risks.

Personally, the political risks involved with cannabis stocks are too much for me. If delays keep happening and the Conservatives take over, shareholders of Canadian cannabis stocks will suffer steep losses. I'm not bearish on the cannabis industry. I just think it's good practice to truly understand the risks involved with a security you're buying.

That's in the worst-case scenario, and it probably won't come to that, but it's always important to analyze the potential downsides before buying shares of speculative companies. Ontario and New Brunswick have each released their plans for legalized marijuana distribution, and that's a good sign that further delays to legalization may be less likely.

Unless you're extremely confident that legalization will happen before 2020, you should probably only invest what you're comfortable losing.

Stay smart. Stay hungry. Stay Foolish.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:ACB (Aurora Cannabis)
2. TSX:WEED (Canopy Growth)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
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