

3 Traits of a Successful Cannabis Growth Investor

Description

The emerging cannabis industry is undergoing a movement unlike any we have witnessed across any industry before. Pundits are forecasting that the cannabis industry could sustainably double each year for the next several years.

Some analysts compare the cannabis industry to the tech industry during the dot-com bubble, but I don't think this is the case. The demand for both medicinal and recreational cannabis is real and most experts agree that the biggest problem facing the industry right now is the shortage that's expected to happen come legalization day.

The emerging cannabis space offers Canadians an opportunity of a lifetime, but it's important to understand what you're getting yourself into before you start loading up on shares of cannabis securities such as **Canopy Growth Corp.** ([TSX:WEED](#)), **Aphria Inc.** ([TSX:APH](#)), **Aurora Cannabis Inc.** ([TSX:ACB](#)), or the **Horizons Marijuana Life Sciences Idx ETF** ([TSX:HMMJ](#)).

Successful marijuana investors need a high risk tolerance

With such a rapidly growing industry that's coming out of the dark for the first time, investors need to understand the risks.

Stomach-churning amounts of volatility are pretty much guaranteed, and you'd better make sure you'll be comfortable with double-digit percentage movements, not just in the green, but in the red as well. If you can keep your cool when your marijuana stocks lose half their value over the course of a few weeks, then you've probably got the discipline to become a marijuana investor.

There's a lot of homework to do, and marijuana investors need to take the time to do it

In addition to the excruciating amount of volatility and risk, investors need to do their homework and keep themselves informed on a consistent basis.

There's a great deal of headline risk, and every day, there could be a new headline that could send all marijuana stocks plunging or soaring, depending on what news was released to the public. Euphoria and greed could turn to fear and panic in an instant, and you've got to know the difference between short-term noise and game-changing news, which could impact your long-term thesis.

Your original thesis could change suddenly. You've got to know how to respond

Take Canopy as an example. Earlier in the year (before the stock took a major plunge), I'd [warned investors](#) that a crash would be on the horizon because of the negative press about Mettrum Inc. and the use of banned pesticides. Investors quickly saw the euphoria turn into a bad trip, as shares plunged ~48% from peak to trough.

A few months later, I changed my stance and [recommended](#) that investors be greedy while others

were fearful. Shares of Canopy doubled over just a few months following very positive developments, including a supply deal with New Brunswick, and more light being shined on each province's distribution plans.

Usually, when it comes to long-term investing, one's thesis doesn't change from week to week or month to month, but cannabis stocks are another beast. Investors simply don't know the whole story yet, but as the pieces come together, we'll be able to build on or completely change our theses gradually over time as we learn more.

Bottom line

There's still a substantial amount of uncertainty surrounding cannabis stocks at these levels; however, this uncertainty has gone down as more news has been released on each Canadian province's legalized distributions plans.

Going forward, as we learn more about what will happen come legalization day, I believe the uncertainty will gradually die down, and because of that, many investors will start to flock into the stocks because we all know investors hate uncertainty.

If you've got the risk tolerance, a strong stomach for volatility, and you've got the time to do your homework by keeping up to date on the events affecting the marijuana space, then you've got what it takes to realize huge rewards in the marijuana industry over the long term.

A prudent way to minimize risk would be to gradually accumulate shares of your favourite pot stocks over time, and on dips, assuming no extremely [negative developments](#) arise that could cause your investment to go up in smoke.

Stay smart. Stay hungry. Stay Foolish.

CATEGORY

1. Investing

TICKERS GLOBAL

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

PARTNER-FEEDS

1. Msn
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