



How to Reduce Risk While Investing in Cannabis Growth Stocks

Description

Canadian cannabis producers have been riding a tonne of momentum of late as sentiment went from fear to greed in what seemed like an instant. Cannabis stocks took a breather earlier this year, but it's apparent that these stocks can't be kept down, especially with triple-digit growth numbers that come with rapidly emerging markets.

Is it too late to take such great risks?

Cannabis stocks have already doubled many times over, so it's natural for investors to question whether or not it's too late to jump in on such a unique opportunity. I think it's far from too late; in fact, I believe there's still a tonne of upside for many Canadian cannabis producers. However, with astronomical potential returns comes a similar magnitude of risk that investors need to understand before they load up on shares of their favourite pot stocks.

What do I need to know before betting on weed?

If you're going to be a successful cannabis investor, then you've got to have a high risk tolerance, a stomach for volatility, and the time to keep up to date with the latest news coming from the cannabis industry. The cannabis industry is unlike anything that many of us have encountered before.

To minimize risk, cannabis investors need to consistently be well informed

While many long-term investors may have the strategy of buying and forgetting stocks, this strategy probably isn't best suited for your cannabis investments. There's news on the cannabis industry nearly every day, and you've got to stay on top of it, or you could miss obvious warning signs to sell. There's a tonne of systematic risk involved with cannabis investing, so you've got to expect massive declines, even though they may not impact the long-term fundamentals of a particular business.

Spot the warning signs early and react accordingly

In a [previous piece](#) earlier in the year, I'd warned investors that a correction would hit cannabis stocks, triggered by the fiasco going on at **Canopy Growth Corp.** ([TSX:WEED](#)). Surely enough, shares of

WEED nearly lost half of their value over a few months, and all cannabis stocks followed.

In [another piece](#), I'd warned investors that **Aphria Inc.** (TSX:APH) faced a major risk of being delisted from the TSX, and that shares could nosedive as a result. Aphria took a ~13% plunge following delisting fears that brought down the rest of the cannabis market with it for the day.

Bottom line

There's a great deal of systematic risk when it comes to pot stocks. If any negative developments arise from any cannabis stocks or the industry as a whole, shares will head into the red. On the flip side, any positive developments will send shares of most pot stocks way into the green.

To lower risk, keep informed on developments, and make sure your long-term thesis is still intact. I believe the pot stocks will continue to surge — that is, until the next unexpected negative development shows its hideous face.

Even if you remain informed and react accordingly, cannabis investments are still ridiculously risky, and you could still lose your shirt without a chance to wonder what happened.

Stay smart. Stay hungry. Stay Foolish.

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Author

joefrenette

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