



The Big Question All Cannabis Investors Should Be Asking

Description

Marijuana stocks are soaring this year, and with legalization right around the corner, it's hard to see that slowing down anytime soon. Everyone is expecting demand to outpace supply, and that is why we are seeing many new cannabis companies pop up, including **Aurora Cannabis Inc.** ([TSX:ACB](#)), which has only been trading since July, and its share price has already doubled.

However, before investors jump on board the bandwagon, there is one important question that everyone should be asking:

Will pot users buy from governments and corporations?

Many marijuana users have been jailed and had their lives ruined for smoking pot. It's hard to imagine that users that have been jailed and chastised about the use of marijuana by the government will now support the legalization of the drug, which will ultimately send tax revenue back to the government, and indirectly fund the very police that carried out drug busts and arrested users for smoking pot.

I'm not suggesting that we won't see significant growth from the legalization from marijuana; we most certainly will. There will be new users that will try cannabis that previously may have avoided it because it was illegal. However, the big pot users, the ones that have smoked for years and that would be responsible for most of the consumption, might opt to avoid the legal route.

Part of the pot-smoking culture has meant being anti-government and anti-corporation, so the very idea that pot smokers will be helping bottom lines and tax revenues seems amiss. Perhaps I'm wrong and many users will opt for corporate and government storefronts to get their cannabis, but it's not something that should be assumed will be a given.

What that could mean for investors

A lot of the stock prices for cannabis shares are based on the assumption that growth will be massive and supply simply won't be able to keep up. We've already seen [what can happen to a company that fails to live up to aggressive growth targets](#). If demand falls short of the sky-high expectations that are priced into cannabis stocks, that could result in serious price corrections, and many investors could

lose their shirts.

Current valuations are too high

Cannabis stocks [have been soaring](#) to unsustainable heights this year, despite many companies not even posting profits. Many investors appear to be concerned with missing the boat on the next big growth stock rather than following a more disciplined approach to investing.

Why cannabis stocks may be too risky to buy today

Given the valuations that cannabis stocks are trading at today, investors will be exposed to a lot of risk, as the share prices are very sensitive to marijuana-related news. Any setback in legalization or other negative news, and the stocks could come crashing down. There's no guarantee that will happen, but it might be a better bet than on expecting values to keep rising at this pace.

In the short term, investors will certainly be able to make some gains off the hype the industry has seen, but these are not investments that you can safely forget about over the long term.

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