TFSA Investors: Is Investing in Marijuana Stocks for You?

Description

With so much hype built in to marijuana stocks, young investors who are building their savings through Tax-Free Saving Accounts (TFSAs), might be wondering if this sector is good for their portfolios.

If you look at the performance of the top marijuana stocks in Canada, it is hard to ignore the triple-digit returns they produced for investors this year. These types of gains are much more attractive if you earn them in your TFSA, because you don't have to pay any capital gains tax.

Cannabis companies are one of the major growth areas in the market and are becoming very appealing for investors who want to keep some high-octane growth stocks in their portfolios.

But before you make a decision to buy marijuana stocks, you should try to understand the dynamics of this rapidly changing industry and the risks involved.

Recreational market

The Canadian government plans to open a recreational marijuana market in the summer of 2018. But there is a possibility that the government might miss this self-imposed deadline, especially when Canada's provincial governments have a major role to play.

On November 30, the Senate began to debate the Bill C-45, which the House of Commons has already passed, but the debate in the lower house could drag on for months before we see this last legislative hurdle removed to open the market by next summer.

The federal government, however, seems adamant to meet the July 1st deadline to legalize the recreational use of cannabis and is working hard to remove all the roadblocks quickly.

On December 11, for example, the federal government was successful in working out a deal with provinces and territories on sharing pot tax revenues.

The revenue-sharing agreement gives the provinces and territories $0.75 of every dollar collected in excise tax levied on cannabis for the first two years. That's a significant increase from the 50-50 split the federal government had proposed last month.

Market risks

The biggest pot companies, **Canopy Growth Corp.** (TSX:WEED), **Aphria Inc.** (TSXV:APH), and **Aurora Cannabis Inc.** (TSX:ACB), are positioned well to take advantage of the recreational market, which, according to some estimates, could be valued between $5 and $10 billion.

But these numbers may prove to be exaggerated, threatening the rich valuations that investors have assigned to the shares of these companies. Some investors are already raising the red flags and warning of a potential bubble, as not all the players are going to be the winners in this game.

Canada's pot companies look expensive after hefty gains this year, as investors flock to these companies in search of higher returns.

Still, if you want to take the risk and test your luck, stay away from small players and focusing on the companies that are big enough to drive others out of the market in case of stiff competition. With this theme in mind, I prefer Canopy and Aphria stocks for the new TFSA investors.

CATEGORY

1. Investing

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1. Editor's Choice

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