



Why the Marijuana Industry May Be About to Sink Lower!

Description

Several days ago, I wrote an article about the [best stock to short sell in 2018](#). The name was none other than **Canopy Growth Corp** ([TSX:WEED](#)), which is currently down by more than 10% amid reports that the U.S. federal government may reverse their decision and come down on those States that have legalized marijuana.

In spite of this decision having very little impact on Canadian marijuana producers (and may arguably be beneficial), some investors headed for the exits at the first sign of trouble. Clearly, many are “leaving the party before the music stops.”

In the case of marijuana use (just as in alcohol consumption), the standard needs to be similar within any geographic area. Regarding alcohol consumption, many young adults aged 18 and older will visit the City of Montreal (from other provinces and the United States) in order to legally enjoy the product. In the case of marijuana consumption, if the United States were to make the consumption (or sale) of the product illegal, then Canada would be in a prime position to attract significantly more tourists and sell a lot more marijuana. Given the most recent news story, marijuana shares such as Canopy Growth Corp should actually have vaulted higher.

What should investors in marijuana stocks do at this point?

Currently, those who have invested in this sector have likely done very well, as the past few days have seen new all-time highs for a number of companies. As fellow contributor Joey Frenette pointed out in a recent [article](#), it may be a good time to take one’s initial capital off the table and play with the house’s money, with which I agree. Over the past month alone, shares of Canopy Growth Corp have increased by an astronomical 85%, as many states now want to be included in the potential tax revenues that will be generated by the sale of this newly legalized product.

How can shareholders minimize their risk?

For those seeking exposure to this very risky sector (and hopefully limit their downside), there may be no better way than to diversify through the use of an exchange-traded fund. **Horizons Medical Marijuana Life Sciences ETF** ([TSX:HMMJ](#)) is one of the most popular ETFs currently available. What

makes this alternative even more attractive is that the company's return over the past month was nothing short of 50% while offering volatility that is less than the sector average.

Barring this alternative, investors can purchase shares and write out of the money call options against their shares in hopes of creating downside protection. The challenge faced by investors, however, will be that they are limiting their upside *and* their downside in using this strategy.

CATEGORY

1. Investing

TICKERS GLOBAL

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

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