



Have Marijuana Stocks Grown to Constitute a Significant Proportion of Your Investment Portfolio?

Description

Investing in marijuana stocks has offered some life-changing portfolio returns for some early investors between 2016 and 2017, as cannabis stocks' massive growth during the period have created some millionaires, grew several individuals' nest eggs, and made some pundits not to worry about their retirement savings any more.

If you have been invested in any of the big five cannabis stocks since January 2016 and had the nerves of steel to avoid selling on the dips, gains of 1,274.48% have been realized on **Canopy Growth Corp.** ([TSX:WEED](#)); **Aphria Inc.** (TSX:APH) stock has rallied 1,644.72% by January 4, while **outperforming Aurora Cannabis Inc.** ([TSX:ACB](#)) stock has rallied 2,140.30%, and **Cronos Group Inc.** (TSXV:MJN) shares soared 4,134.40% during the period to January 8, 2018.

These wonderful investment returns only come [second to cryptocurrency gains](#) realized during the same period.

Such an enviable portfolio growth in just 24 months must be celebrated. However, while you deserve to pat yourself on the shoulder for a great investment decision, one thing is highly likely now: the big gains on marijuana stocks may have resulted in several investment portfolio compositions being dominated by cannabis-related holdings.

That could be a problem.

What does this mean for your portfolio?

Marijuana stocks, by their current nature, introduce higher overall portfolio volatility, and *volatility* is just a polite word for portfolio risk.

Having a bigger proportion of your portfolio in marijuana-related stocks means you have elevated portfolio investment risk. Should marijuana stock valuations take a prolonged dip, like they did mid-year 2017, you may take a significant hit.

As you may have witnessed on December 29, 2017, and recently on January 4, marijuana sector stock prices have become more volatile of late, prompting regulatory trade halts on Canopy, Aphria, and Aurora to bring some normalcy in the respective stocks' trading on December 29.

Cannabis stocks' valuations have rallied beyond what may be deemed sensible to those who have been in the market since the dot.com bubble of the late 90s, and violent corrections may be due any time.

The latest volatility hike in the leading stocks could signal broad market valuation uncertainty and give a stern warning of weakening investor confidence, as valuations have overshoot into bubble territory.

It could be very trying to resist a panic sell when your wealth goes down more than 30% in a marijuana stock tumble.

What could you do?

If it would kill you to lose the already amassed wealth, it may be a good decision to consider reconstituting, or rebalancing, your portfolio by selling some portions of your marijuana holdings during the current strength.

While Canadian marijuana stocks may continue registering price gains in the near term, any negative news piece affecting the sector may induce a catastrophic sector-wide valuation correction that could significantly hurt your portfolio.

Most importantly, the loss could be a huge blow to your retirement planning. I wouldn't recommend significant marijuana sector exposure for those near retirement, as any sustained dip in the stocks could compel people to work longer than originally planned, or force them to make some undesirable lifestyle changes in their senior years.

Young investors in the accumulation stage could still have some "reasonable" exposure to the sector, but risk levels need be checked and re-checked more often, as more volatile marijuana stocks take up increasing weight in the overall portfolio.

Taking your original investment off the big winners and letting the remainder run for the long term may be a wise move. The new money may then be re-deployed into more stable industry sectors, as you rebalance your portfolio allocation and reduce wealth risk.

Investor takeaway

I am a strong believer in the buy-and-hold portfolio strategy. My proposition today may seem contrary to that philosophy, but risk management is also a very important aspect of investment management that could mark the distinction between successful wealth creation and catastrophic portfolio loss realizations.

Marijuana stocks appear highly volatile, and the risk of a near-term correction is more real than ever.

You may need to consult your investment advisor on customized portfolio weighting parameters and consider a subscription to some of The Motley Fool services for some stock suggestions to populate the rebalanced portfolio.

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2. TSX:WEED (Canopy Growth)

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