



Could the Cryptocurrency Crowd Be Driving Cannabis Stocks Into Bubble Territory?

Description

Cannabis stocks are smoking hot! With Canada slated to legalize the drug by the summer of 2018, many speculators from across the globe have begun to take notice.

There's no denying that legal cannabis brings a tremendous opportunity for Canadian investors; however, with shares of the big four Canadian pot stocks — **Canopy Growth Corp.** ([TSX:WEED](#)), **Aurora Cannabis Inc.** ([TSX:ACB](#)), **Aphria Inc.** (TSX:APH), and **MedReleaf Corp.** (TSX:LEAF) — surging exponentially over the past few months, the chart is starting to draw comparisons to that of cryptocurrencies, which were booming in 2017.

Are cannabis stocks in a bubble?

Unlike cryptocurrencies, most of which I believe are essentially worthless, the cannabis industry is a real opportunity to deliver triple-digit year-over-year percentage gains, but even these next-level growth numbers aren't enough to justify the recent exponential stock price increase in cannabis stocks.

At these levels, the herd mentality of cannabis investors is almost as dangerous of that of crypto speculators. However, I don't think the cannabis industry is in a bubble that will pop and never recover, unless, of course, cannabis legalization never comes to fruition under Trudeau's mandate — a very real possibility that could end up playing out if worse comes to worst.

I believe cannabis stocks are overdue for a violent correction since they have flown above and beyond what's realistic, even for the most optimistic of forward-looking growth projections.

Why crypto fever may be affecting cannabis stocks

If you haven't given into the hype surrounding Bitcoin and the like, then congratulations; you're a very disciplined investor who's not easily influenced by peer pressure.

Cryptocurrencies are a mania like nothing we've seen before. Tonnes of speculators have swarmed cryptocurrencies, which are not considered legal tender and very well could be shut down by regulators

on a whim.

For those who haven't been following crypto, Bitcoin, Ripple, Ethereum, Litecoin, and most popular cryptocurrencies have been [tanking of late](#). And that means tonnes of speculators are looking for a new place to gamble their winnings at another shot to double their money over the course of a few weeks.

The FOMO (fear of missing out) mentality in the cannabis space looks like it's being exacerbated by the crypto craze. Think about it. The average investor is likely hearing their friends bragging about becoming rich through hot speculative investment instruments, whether it's cannabis or crypto. And who doesn't want to be rich?

It looks like the average investor may be more inclined to elevate their risk profiles artificially to capitalize on what they believe is an opportunity of a lifetime to get rich quickly. This is a huge problem, especially for those who are normally risk averse and may not really understand what they're getting themselves into.

Bottom line

In short, cannabis stocks are a wonderful growth opportunity, but after the rally fueled on nothing but euphoria, I believe [all cannabis stocks are vulnerable to a pullback](#), which could see many cannabis stocks shed over 60% of their value.

In previous pieces, I've warned investors that a cannabis industry-wide correction was highly probable in 2018, but I noted that all pot stocks would likely recover before the conclusion of 2018.

With the crypto FOMO mentality in the air, I think this correction could be exacerbated as crypto/cannabis gamblers drive trading volumes of pot stocks through the roof, which could very well cause another online brokerage blackout.

Stay hungry. Stay Foolish.

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2. TSX:WEED (Canopy Growth)

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