

Are Marijuana Stocks Losing Their Shine for Speculative Money?

Description

While analyzing the price action in Canada's three largest marijuana stocks in the first three weeks of 2018, you're likely to come to this conclusion: your chances of making and losing money are almost 50-50.

Let's take the example of **Canopy Growth Corp.** ([TSX:WEED](#)), the largest cannabis company in Canada. At one point, its stock was up more than 30%, but it gave up almost half of its gains in the next two weeks. **Aphria Inc.** (TSX:APH) and **Aurora Cannabis Inc.** ([TSX:ACB](#)) followed a similar pattern.

Is this extreme volatility a sign of nervousness by speculative investors? As I've highlighted in [earlier articles](#), there are not many catalysts left for this industry that could fuel the kind of gains you saw last year.

Last year, investors got excited as the Canadian federal government moved aggressively to pursue its promise of legalizing the recreational use of pot this summer. It got the legislation passed by the lower house of Parliament and agreed with provinces on revenue-sharing formula, while some interesting deal-making boosted the appeal of stocks such as Canopy.

Risks of investing in pot stocks

I know it's really tough to sit on the sidelines when your neighbor is getting rich by investing in pot stocks. During the past three months, the returns for investors have been phenomenal, with all the three top names producing gains in the triple digits.

But before making an investment decision, you should understand the risks of investing in pot stocks. These companies aren't making money yet, and all their share prices represent is built-in expectations.

Going forward, investors will focus their attention on the execution. And that means focusing on companies that are capable of meeting the tough regulatory requirements, overcoming production challenges, and bringing their pot products to consumers. The big *if* here is whether the government and provinces will be able to meet the July 1st deadline for the legalization.

The execution part of the story is obviously boring for investors who want to see their money double in a matter of days, but the execution is something that makes or breaks a business.

If you plan to enter the market in 2018, you should keep in mind that you will be buying marijuana stocks at a time when there may not be much upside left after such an incredible rally in 2017.

Investor takeaway

I have no doubt that investors behind this mad marijuana rush aren't making their investing decisions rationally. But that's fine, because a large piece of action we see in the market every day is driven by

greed and herd mentality. If you're planning to enter this trade now, then the risk of losing your investment is high as we get closer to the execution stage.

For those who've already made some money, then the best strategy here is to take their original capital off the table and play with the house money, as my fellow writer [Joey Frenette](#) described in a recent article. Sometimes it's okay to avoid risky bets and save yourself from catching a falling knife!

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2. TSX:WEED (Canopy Growth)

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