

The Safest Way to Invest in the Cannabis Industry

Description

Cannabis investing is absurdly risky, and as pot stocks continue on their exponential upward surge, investors really need to take every precaution to protect themselves from potential events that could cause their invested principle to go up in a puff of smoke.

There's no question that the Canadian cannabis industry is changing at a rampant rate. It seems like every week there are new developments that could be drivers of euphoria or potential causes for concern. The rapidly emerging cannabis industry requires investors to be "in the know," not just on a month-to-month basis, but on a day-to-day basis, as the huge amount of uncertainty and volatility could quickly derail your investment over a very short time span.

A bull thesis could take a 360-degree turn in an instant, so it's important that cannabis investors know how to react accordingly in response to unforeseen events. It's important to tell the difference between noise and an event that could obliterate your original thesis. Whatever your thesis is for the cannabis sector, you'll likely need to make modifications as you go along and ask yourself some really difficult questions.

While there's no way to eliminate industry-wide risk, there is a way to cut down on single-stock risk by investing in **Horizons Medical Marijuana Life Sciences Index ETF** ([TSX:HMMJ](#)), which provides investors with exposure across the broad marijuana industry, not just with producers, but with firms that'll benefit indirectly from the maturation of the industry over the years. Biopharmaceutical companies dealing with cannabinoids like GW Pharmaceuticals PLC and lawn/garden firms like **Scotts Miracle-Gro Company** are also thrown into the mix.

Why not invest in individual marijuana stocks?

The [Big Four Canadian cannabis producers](#) — **Canopy Growth Corp.** ([TSX:WEED](#)), **Aphria Inc.** ([TSX:APH](#)), **Aurora Cannabis Inc.** ([TSX:ACB](#)), and **MedReleaf Corp.** ([TSX:LEAF](#)) — are the leaders as of right now, but over the next few years, it's possible that none of these companies could be the dominant force in the global marijuana market when all is said and done.

At this point, the market leader of the future may not even be known of yet, and as Health Canada grants more licences to prospective producers, the Big Four producers may lose ground to an up-and-comer that's better equipped to scale up at a quicker rate. Big tobacco and alcohol companies may be waiting for the dust to settle before they make a jump into the nascent marijuana industry.

Also, if you simply own the broader basket of pot stocks, you won't have to worry about which company will fall because of company-specific problems, like Canopy's tainted marijuana scandal, Aphria's ownership of illegal U.S. assets, or Aurora's shareholder dilution.

Bottom line

There's just way too much uncertainty following the entire cannabis market. And if you're not willing to trade in and out of individual pot stocks on a regular basis, there's no shame in owning the broader basket of pot stocks. At these levels, however, I wouldn't touch any cannabis-related securities with a barge pole, because I think a [correction](#) is highly probable in 2018.

Stay hungry. Stay Foolish.

CATEGORY

1. Investing

TICKERS GLOBAL

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

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing

Date

2025/08/20

Date Created

2018/01/30

Author

joefrenette

default watermark

default watermark