Why Marijuana Companies Belong (or Don't) in Your RRSP

Description

After an incredible 2017, shares of Canada's marijuana producers started 2018 with a huge jump forward, only to hit the skids in the weeks since. The biggest producer **Canopy Growth Corp.** (TSX:WEED) has declined by close to 6% on a year-to-date basis after starting the year by moving from $32 per share to more than $40. Essentially, the industry has done nothing, but the gravy train may finally be ready to pull into the station.

Over the past year, many investors who have bought and held shares of marijuana companies have nothing to complain about, as the industry has performed extremely well over the long term. Over the short term, however, shares of Canada's largest marijuana producer, Canopy, have pulled back from a high in excess of $40 to a current price of approximately $28. Clearly, certain investors have lost a lot of money.

Enter the RRSP (Registered Retirement Savings Plan).

With a deadline of March 1, 2018, Canadians have the opportunity to deposit money into this plan to receive a tax deduction for the 2017 tax year. The result of this will be a lesser amount of taxes payable and a higher amount of money to invest in the market. The bonus for many Canadians is the refund cheque that they will receive form the Canada Revenue Agency.

With the ability to invest money today and then again in a few months, Canadians may want to take advantage of the long-term nature of tax-sheltered accounts. Although many will argue that it is preferable to add the interest and dividend-paying securities into the RRSP and hold the stocks that will accrue large capital gains outside the account, the reality is that the ability to sell out of a security can impact the holding period and outcome.

As the marijuana industry is in the infancy stage, there will inevitably be a lot of changes that will impact the market and the investor. As an example, for those holding these securities outside their RRSP accounts, any merger or acquisition could trigger a large capital gain, which would need to be paid. In an RRSP or TFSA account, this would not be the case.

In spite of a high amount of growth already being priced in to these securities, investors with a long time horizon can still benefit substantially from what is going to be a very long-term growth story. How the entire marijuana-legalization process unfolds in each province (and state) will be watched very closely by those seeking additional tax revenues in the future.

Remember: the deadline to contribute to your RRSP is March 1.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:WEED (Canopy Growth)

PARTNER-FEEDS

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

Category

1. Investing

Tags

1. Editor's Choice

Date
2025/08/20
Date Created
2018/02/27
Author
ryangoldsman