



## Do Warren Buffett's Investment Principles Still Apply in the World of Marijuana Stocks?

### Description

Although Warren Buffett would likely never own pot stocks at these levels, you can still use apply his teachings and investment principles in such a speculative, nascent market. Buffett is a value investor, and he stays within his circle of competence, but if you find that marijuana is within your personal circle of competence, then you can go ahead and place a bet.

But make sure you've done your homework and truly understand the risks of such a speculative, "sexy" investment. And make sure you don't become reckless, euphoric, and greed driven when your **Canopy Growth Corp.** ([TSX:WEED](#)) or **Aurora Cannabis Inc.** ([TSX:ACB](#)) investment doubles over a month.

Sure, you may think of yourself as a genius, but this kind of complacent mentality is a sure-fire way to make moves that'll end up with you [surrendering your gains](#) and then some.

### How can you use Buffett's teachings to protect yourself when investing in a dangerously speculative space?

When it comes to the cannabis market, you're investing alongside short-term traders and gamblers. And if you follow along with the herd, you'll end up getting hurt.

There is a smart, calculated way to bet on the cannabis market, and if you remain humble in spite of any impressive gains, you can protect yourself when the next violent crash happens — not *if* it will happen, but *when*. It's inevitable, especially given the euphoric nature of traders these days.

Take Buffett's famous line, "be fearful when others are greedy and greedy when others are fearful." It applies, not just to value stocks, but to almost any other sort of security that you have a firm understanding of.

Everybody's greedy right now, so if you took Buffett's advice, you should be fearful by selling your cannabis stocks. That works, but odds are, you're still fearful of missing out on the next parabolic surge, so here's a strategy that will allow you to stay in the game, while keeping Buffett's timeless advice in mind: only bet what you're willing to lose, and have cash on the sidelines to "be greedy when

others are fearful.”

In other words, take your original invested principal off the table if you’re already up by a significant amount. Play with the house’s money! It’s a gambler’s strategy, and with cannabis stocks, you’re essentially gambling, not investing; however, unlike gambling, you can tilt the odds in your favour.

By taking your original principal off the table and playing with the house’s money, you won’t end up losing your shirt should a meltdown occur, and you’d have the cash to buy back at a cheaper price when the high magnitude of momentum takes a 360-degree turn. Odds are, you’d be too fearful to buy back at the better price, but even if you didn’t, you still wouldn’t have lost money by investing in pot stocks, and that’s a win in itself.

There’s no point in being overly greedy when you can protect yourself and remain in the game to capitalize on the next leg up in the Canadian “green rush.”

### **Bottom line**

There are still a tonne of concerns, including the potential delay of legalization to 2019 or beyond, the unexpected consequences of a [“grow-your-own”-fueled black](#) market, or a handful of other issues that could wipe out your gains in an instant.

I understand that these long-term issues don’t mean much for most of the marijuana crowd, especially since many investors don’t have a reason to own marijuana stocks, other than for the fear of missing out, but for those who want to be in marijuana for the long haul, there are ways to not get caught up in the speculative crowd as the momentum picks up again.

Buffett’s timeless principles still apply, even in such a nonsensical market, where nothing but euphoria is moving stock prices. Take your original principal off the table and save it to buy Canopy or other pot stocks after they get obliterated once negative developments rear their ugly head. There are a tonne of developments that could cause panic, and you’d be wise to be prepared for such a disaster ahead of time to separate yourself from the rest of the herd.

Stay hungry. Stay Foolish.

### **CATEGORY**

1. Investing

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1. TSX:ACB (Aurora Cannabis)
2. TSX:WEED (Canopy Growth)

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