



## Why the Long-term Marijuana Investor's Thesis May Be Severely Flawed

### Description

Cannabis stocks like [Canopy Growth Corp. \(TSX:WEED\)](#) have made many investors very rich quickly. If you bought in during the industry-wide hangover last summer, you would have more than quadrupled after 2017's year-end surge.

### What's your marijuana investment thesis?

Most pundits would agree that come legalization day, there stands to be a huge shortage in supply; however, this does not necessarily mean that the big Canadian cannabis producers will be poised to rocket even higher. On the contrary, I think all cannabis stocks have surged into bubble territory and there are many insidious negative catalysts that many investors may be missing.

Let's face it: most investors aren't considering the potential negatives that may derail their investment. The thesis for many is that there will be a severe supply shortage in the first year or two following legalization day and that the producer with the largest capacity will be the one to capture the biggest chunk of the pot pie.

Given the impressive triple-digit growth numbers that cannabis producers have enjoyed in the pre-legalization era, it only makes sense to believe that the post-legalization numbers will even better. Indeed, they may be profoundly better given many investors are making the false assumption that the demand for the drug will increase now that recreational users are able to get their hands on cannabis legally.

If you're a cannabis investor who's in it for the long-term and not looking to make a quick trade, you may believe that your holdings could double, triple, or even quadruple again as the nascent cannabis industry has a chance to mature. Canada is pioneering an industry and it appears to be a golden opportunity that many are afraid of missing out on. In some cases, the fear of missing out exceeds the fear of double-digit percentage losses that could be realized over the short-term.

I understand the reasoning for such a strong [FOMO mindset](#). Cannabis legalization is a big deal. There's a profound amount of money to be made, and in the pre-legalization era, it seems that you're getting in early on what could be one of the biggest millionaire-making opportunities of our time.

As a long-term investor who cares about the fundamentals, however, it's nearly impossible to form a solid investment thesis, as there's way too much marijuana smoke that's covering up not only potential developments in the coming year, but also in the next month, week, or even day ahead.

### **Why you may not be able to sell when things start getting really ugly**

After the recent parabolic rally, you're not only coming in late, but you could stand to lose a majority of your investment on a potentially flawed thesis that could be derailed in a hurry as fear of missing out (FOMO) prompts a rush for the exits, causing what could be another round of online brokerage crashes due to spiking sell volumes.

If this occurs, not only will you be unable to cut your losses, but you'll also probably be forced to ride out your stock all the way to the bottom. And if that happens, you really can't blame the brokerage, as this is a problem that's happened before and will most likely happen again.

As Warren Buffett once said, "Buy on the assumption that they could close the market the next day and not reopen it for five years."

With this in mind, marijuana investors should not be itching to sell once the herd heads for the exits in droves because odds are it's going to happen again, especially when you consider that marijuana stock volumes have been dwarfing the volumes of many Canadian blue chip stocks of late.

If you're confident in your thesis, then you're free to stick with it through potentially harsh times ahead. However, please remember that all it takes is one tiny flaw in an investment thesis to derail the entire long-term story, which could have long-lasting negative implications.

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1. TSX:WEED (Canopy Growth)

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