



## A Low(er)-Risk Strategy for Investing in Cannabis and Cryptocurrencies

### Description

Investing in the latest trends can be risky. Price movements in speculative sectors such as cryptocurrencies, blockchain, and cannabis can make you sick to your stomach if you have any money invested in the sector. Or the volatility may simply make you want to stay away and avoid the volatility altogether, potentially missing out on massive gains. While I definitely would not want to invest large amounts of money into either of these sectors, it may be fun to take a stab at them.

The issue is that many people do not know how much they want to invest and may end up putting too much money into the sector. While this is great when the stocks keep shooting up, it can be heart-wrenching to see your money slipping away when volatility brings them down to earth.

Having a plan in place can keep you from panicking if things do not go your way. I suggest making use of a mental bias that we all have to help us manage how much we invest in risky sectors. The mental bias, known as Mental Accounting, was first described by the researchers Amos Tversky and Daniel Kahneman. Essentially, it means that we put money into different mental accounts depending on where the money comes from, even though in reality all our money is in one big pot.

In order to limit the amount of money that you invest in risky sectors, first invest your money in solid, dividend-paying stocks such as **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)) or **BCE** ([TSX:BCE](#))([NYSE:BCE](#)). These stocks pay solid, growing dividends of 4.3% and 5.7%, respectively, producing income that you can then save and invest. This becomes the seed money for your mental account for taking big risks.

Try using a one-third rule for putting this money into the market. Put one-third of the dividend proceeds into cannabis stocks, one-third into cryptocurrency-related investments, and one-third into cash. These accounts will seem like playing with “the house’s money” and will not be as devastating if lost.

The cannabis-marked money can be [put into ETFs](#), such as the **Horizons Marijuana Life Science Index** ([TSX:HMMJ](#)), or into individual stocks, such as **Canopy Growth** ([TSX:WEED](#))(NYSE:CGC). Either will work, although you will have more leverage on individual companies and therefore more risk. Also, many brokers allow you to buy ETFs commission-free, so check with your broker to see if this is

possible. ETFs may be useful for smaller accounts, as you can buy as little as one ETF unit immediately after receiving your dividend.

The one-third portion of your portfolio dedicated to cryptocurrencies could be put [into either an ETF](#) such as the **Horizons Blockchain Technology & Hardware Index ETF** (TSX:BKCH) or an individual company such as **Hive Blockchain Technologies Ltd.** (TSX:HIVE). However, in this case, I would suggest putting the money straight into a cryptocurrency. Why not go for the gold with the money in this mental account?

Finally, put the remaining third of your dividend money into savings, preferably keeping it in your trading account using an ETF, such as **Purpose High-Interest Savings ETF** ([TSX:PSA](#)), **iShares Premium Money Market ETF Comm** ([TSX:CMR](#)), or **Horizon Active Floating Rate Bond ETF Comm** ([TSX:HFR](#)). These cash accounts will give you a small yield, but, more importantly, will give you some comfort that at least a portion of your money is safe. This will give you a degree of comfort, while the rest of your dividend money goes up and down like a yo-yo.

But stick to your plan and only invest the dividends. Do not put more money into these speculative investments than what was outlined. If you do, you may not find a limit and may end up putting too much in, leading to a potentially massive loss. Using the concept of mental accounting will help you to limit losses if things take a turn for the worse.

## CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Energy Stocks
4. Investing
5. Stocks for Beginners
6. Tech Stocks

## TICKERS GLOBAL

1. NASDAQ:CGC (Canopy Growth)
2. NYSE:BNS (The Bank of Nova Scotia)
3. NYSE:ENB (Enbridge Inc.)
4. TSX:BNS (Bank Of Nova Scotia)
5. TSX:CMR (iShares Premium Money Market ETF)
6. TSX:ENB (Enbridge Inc.)
7. TSX:HBLK (Blockchain Technologies ETF)
8. TSX:HFR (Horizons Active Ultra-Short Term Investment Grade Bond ETF)
9. TSX:HMMJ (Horizons Marijuana Life Sciences Index ETF)
10. TSX:PSA (Purpose Fund - Purpose High Interest Savings ETF)
11. TSX:WEED (Canopy Growth)
12. TSXV:HIVE (Hive Blockchain Technologies)

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