



How Many More Marijuana Millionaires Will Be Minted?

Description

It's hard to ignore the buzz that's surrounded marijuana stocks of late. Nationwide legalization is happening, and it's just two months away. In other words, judgement day is coming, and you can expect off-the-charts volatility.

Expectations are sky-high, and the first round of post-legalization earnings reports are going to cause trading volumes that will probably send your discount brokerage on life support. Most pundits would agree that a massive supply shortage will be in the cards, so the best-prepared firm to meet the sky-high demands in the post-legalization environment will be the ones that may end up doubling or halving in a single trading session.

Yes, you heard that right. U.S. investors have the opportunity to invest in Canadian pot stocks including the likes of **Canopy Growth Corp.** ([TSX:WEED](#))(NYSE:CGC). But it's not just U.S. investors. The New York Stock Exchange may be seen as a proxy for international investors who want to get in on a piece of the action, and so Canopy and its peers are going to be garnering international attention over the next year or so. As such, I think volatility and trading volumes will be unlike anything we've seen in the past.

The calm before the storm is now, and while a severe systematic crash in the industry could be in the cards, so, too, could another rally that could see all pot stocks quintuple over the course of a few months or even weeks. So, if you're a gambler, you're essentially betting on a roulette table with the risk/reward that may be tilted in your favour.

Let's say the odds of are 50% (we really don't know) that Canopy exceeds expectations for its first quarter in a post-legalization environment. Keep in mind; we also need to consider management commentary and guidance, which is pretty much guaranteed to be upbeat. If Canopy flops on expectations, the stock will correct (again), as it has so many times over the past few years. The worst-case scenario would involve losing a majority of your original investment. Should Canopy deliver blowout numbers, however, the stock could easily blast off into the stratosphere with no real upside cap as investors waiting on post-legalization results begin piling into the stock.

Here at the Motley Fool, we're investors, not traders, so how should Foolish investors proceed?

This is going to sound glib, but please don't invest what you're not willing to lose! You can certainly realize a multi-bagger over the course of a few months, but you could also lose a majority of your investment instantly.

You can mitigate your risks by investing a small chunk of your disposable income now during the calm, and after the storm if it ends up causing an industry-wide collapse in pot stocks. A lot of investors and traders are going to throw in the towel if expectations fall short, but it's the longer-term story that a Foolish investor cares about.

I suspect the downside will be severely exaggerated (think a +70% crash) in the worst-case scenario. While demand may be weaker than expected, it's worth remembering that consumers may take time to "warm up" to legal pot. Moreover, a lot of prospective cannabis users probably have no desire to smoke it.

When creative [differentiated cannabis-based consumables](#) hit the shelves, I think demand could begin to pick up as the industry moves away from the highly regulated "paper bag" phase into one that's more attractive to prospective consumers.

Foolish takeaway

More [marijuana millionaires](#) will be minted, but you shouldn't shoot to become one of them over the short term, especially if you can't afford massive near-term losses.

At this juncture, Fools need to consider the two possible outcomes and be prepared to react accordingly. While the possibility of joining the marijuana millionaire club over the short term is intriguing, I'd encourage investors to take a longer-term approach by getting in the game gradually and adding to a position on any massive declines. While the path won't make you a marijuana millionaire overnight, it will make the industry more investible for the average investor.

Stay hungry. Stay Foolish.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:WEED (Canopy Growth)

PARTNER-FEEDS

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

Category

1. Investing

Date

2025/08/19

Date Created

2018/08/17

Author

joefrenette

default watermark

default watermark