



When Bitcoin and Marijuana Mix

Description

Marijuana stocks are becoming hot again. One alcohol company upped its stake in **Canopy Growth** ([TSX:WEED](#))(NYSE:CGC) stock, and another one is reportedly hovering around the sector, looking to a blockbuster deal of its own before the “hot commodity” in the Canadian cannabis scene runs dry.

As the euphoria picks up heading into the latter part of the year, it's important to remember that the “greater fool theory” is going to come into full force again, like it has so many years in the past. But this time, I think there are many more “greater fools” out there that will exacerbate the fear-of-missing-out (FOMO) mentality.

Who are these additional greater fools, you ask? I think it's cryptocurrency traders who may be ready to take a puff out of marijuana's next rally, as they become desperate to recoup their steep losses after the crypto trade went bust.

What's the greater fool theory all about? When it comes to explaining the theory, my Foolish colleague Chris MacDonald put it best: “You're going to need to hold onto the belief that your speculative investment will not be held accountable to any fundamental financial analysis, and the plumber down the street will gladly exchange his hard-earned money for shares in your speculation.”

In other words, you're trading a security whose valuation is unknown and relying on the possibility that someone else will pay a higher price. Bitcoin is essentially the epitome of the greater fool theory at work, and, as you'd expect, it didn't end well.

Warren Buffett and Charlie Munger both think that Bitcoin (and other cryptocurrencies) are worthless assets. Munger took it a step further by noting that he likes cryptocurrencies a lot less than Buffett: “I think that people who are professional traders that go into trading cryptocurrencies, it's just disgusting. It's like somebody else is trading turds, and you decide ‘I can't be left out,’” said Munger at **Berkshire Hathaway's** annual shareholder meeting.

As you'd imagine, there were a handful of giggles when Munger expressed his actual thoughts on the crypto craze, but the man is completely right. Some FOMO traders will trade anything if there's an opportunity to get rich quickly — tulips, marijuana, Bitcoin, or even excrement. It doesn't matter as long

as the momentum is present.

Now that Bitcoin has gone bust, the dangers of investing in the cannabis sector have been raised. Some crypto traders have suffered +70% losses, and, as you'd imagine, they want to get it back and at today's levels with the crypto trade seemingly dead, it looks like cannabis is this opportunity to break even and perhaps get rich at the expense of others who are willing to pay a higher price for their pot stocks.

Now, unlike Tulips or cryptocurrencies, the nascent marijuana market provides a real tangible opportunity to investors. There's underlying value behind pot stocks, but that won't matter once FOMO folks like crypto traders drive up prices exponentially higher from here. You see, the tech bubble was also a real opportunity, but when the wrong crowd got involved, most investors ended up losing their shirts.

Foolish takeaway

I think investors should proceed with caution, as it's possible that capital may be moving from crypto and into marijuana. While I believe [Constellation Brands's investment in Canopy](#) provides some sort of baseline for Canopy (or the market as a whole), one has to think that **Cronos Group** ([TSX:CRON](#))([NASDAQ:CRON](#)) and its colossal 110% gain in less than two weeks is trim-worthy.

As the [pot trade continues to heat up](#), make sure you've got a profit-taking strategy, so you don't become the one left holding the bag at the hands of a FOMO trader who may exacerbate increases and declines as we inch closer towards marijuana's judgement day.

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