



How to Foolishly Invest in Pot Stocks

Description

Given the funny accounting practices exhibited within the cannabis industry, the cloud of marijuana smoke that's made pot stocks nearly impossible to analyze with any degree of accuracy, the rapid pace of surprising (and not so surprising) developments, and uncertainty with regard to the economics that'll be in play, I think it's safe to say that investors who intend to own pot stocks have realized that they're taking a leap of faith, as many more "surprises" will dictate the trajectory of pot stocks as they have in the past.

But really, isn't everyone taking some sort of leap by owning any form of common stock?

Surprise developments move stocks and while you could lock-in a seemingly safe investment with a large margin of safety, the fact of the matter is you've got to be prepared for anything as an investor! Accounting irregularities, fraud, accidents, suits, negligence, recessions and obsolescence are all risks that could catch any investor off-guard. And much of the time, it isn't the fault of the investor with unknown activities going on behind the scenes.

The most significant difference between regular stocks and pot stocks, however, is the profound acceleration of developments that will inevitably dictate the trajectory of pot stocks under question. As you may have noticed, any given pot stock is subject to material news on a daily basis! And investors need to be informed of such developments since they stand to effect an investment thesis.

The same can't be said about the blue-chip stocks at the core of your portfolio. You could be waiting months between meaningful material events, and for many aggressive investors looking to make a quick buck, these stocks are unopportunistic.

What's a Foolish investor to do if they want to get involved with pot stocks?

While we can't predict the series of developments ahead in the marijuana market (or any market for that matter), we can certainly brainstorm potential developments that may pan out over the next year and beyond. Given a list of potential developments, we can then estimate the probability of such events are over a certain timespan and how material they'll be to pot stocks in aggregate.

Moreover, estimating how the economics of the cannabis market will play out may allow you to determine whether you should make the plunge into the cannabis sector.

There are a ton of uncertainties at play, so everybody's viewpoint is likely to differ based on their subjective beliefs. We've never had a G7 legalize cannabis nationwide before, and while some of "armchair economists" will be right, many will be very wrong.

So, it's important to consider all the factors at play, rather than merely buying into one analyst's idea of how the post-legalization environment will work out. So, expose yourself to different opinions so you can gain food for thought and bite on the one that you believe in.

At this point, everybody believes that initial demand will profoundly overwhelm supply in the pot scene. While that certainly looks to be the case, one also has to consider the potential impact that the black and grey markets may have on this thesis.

Further, regulatory uncertainties and the possibility of a Conservative rule must also be considered.

Foolish takeaway

Understand the risks at play and make an educated guess of what you think will drive pot stocks under question moving forward. If positive developments are already baked into a particular stock, as with **Canopy Growth Corp.** ([TSX:WEED](#)) after its [latest rally](#), it may be a good idea to sit on the sidelines as you wait for impatient short-term traders to throw in the towel, providing you with a trough — a better price that won't be inflated over the short-term by weak-handed traders.

Like it or not, as a Foolish pot investor, you're going up against FOMO traders, many of which may be coming from the crypto world, seeking to recoup their prior losses on Bitcoin. Don't be a victim. Be like **Constellation Brands**, and [dollar cost average](#) into a position on dips.

Stay hungry. Stay Foolish.

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Author

joefrenette

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