



## Will Pot Stocks Become the Next Bitcoin?

### Description

In the past year, we've witnessed the rise and fall of Bitcoin. After reaching highs of nearly US\$20,000 late last year, the cryptocurrency has since crumbled its way back down to less than US\$7,000. It's a dangerous reminder of the risks involved when you buy simply by looking at price movement and believe in some magical growth that will happen in the future.

When the reason you buy isn't based on some aspect of the company's business or taking into account its financial performance, that's when you've crossed over into speculation, and with that comes significant risk.

Pot stocks are not all that different from Bitcoin and are creating their own bubble, as many people are buying based on the belief that the price will go up because it has in the past and that it will continue to ride that momentum, at least until legalization. Unfortunately, predictability is not one of the market's strong points, and the most dangerous time to invest your money is when you think you've got it all figured out.

When it comes to cannabis, investors have been drawn in by the promise of high sales growth. The problem, however, is trying to quantify that growth and then applying it to a stock like **Canopy Growth Corp.** ([TSX:WEED](#))(NYSE:CGC) and determining its expected sales and potential profits. Such a calculation would involve a lot of assumptions and a high degree of uncertainty, rendering it useless in the end.

I'll return to the Bitcoin example — and the expectation that it would see its user base increase significantly and even potentially become a preferred medium of exchange. Needless to say, those expectations never materialized, and when big social media sites started [banning](#) Bitcoin-related advertisements, that pretty much sealed the cryptocurrency's fate.

For cannabis stocks, it'll take some time before we see what the growth looks like. However, that doesn't mean that prices will continue to rise until that point; after all, it's only expectations that would need to change for there to be some movement in the market.

Even if Canopy Growth were to achieve a high level of sales growth, investors need to remember that

as those expectations are included in the current stock price, it won't lead to an incremental benefit in the stock price, as the company will simply be meeting expectations.

Year to date, pot stocks weren't performing all that well, and it wasn't until we saw [news](#) start to break about big-name beverage makers getting involved in the industry that cannabis stocks started to soar once again. However, a drop in price can be even more sudden.

We saw with Bitcoin just how quickly things can come crashing down, and investing in cannabis presents a similar risk, as a big correction in stock prices is never too far away. And while that doesn't mean that we'll see a big crash today or tomorrow, it's important to be aware that it is a possibility. With so much hype fueling the industry, reason and logic don't always get through.

## CATEGORY

1. Investing

## TICKERS GLOBAL

1. NASDAQ:CGC (Canopy Growth)
2. TSX:WEED (Canopy Growth)

## PARTNER-FEEDS

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

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