



Danger: The “Crypto Cancer” Has Spread to the Marijuana Market

Description

Many pundits from across Wall Street and Bay Street have dismissed pot stocks and the marijuana industry as a whole as some sort of bubble that'll inevitably burst. While questionable accounting practices and uncertain fundamentals are cause for concern, the opportunity brought forth by nationwide legalization is indeed real. Most analysts agree that there's going to be a massive cannabis supply shortage come legalization day and odds are it's going to take more than a year before a market equilibrium is reached such that the cost per-gram of marijuana can begin to retreat.

Now, there are still many uncertain variables at play in the pot space. It's a risky bet that involves a leap of faith or something of the sort. So, investors who want to get rich off marijuana stocks must not only possess a high loss tolerance, but also a risk-neutral or even a risk-seeking mindset with little to no regard for the amount of risk that's being taken on.

Now, if you're usually a risk-averse investor (and most folks are), it's fine to have a separate, isolated portfolio for your speculative plays that take on a risk-neutral or risk-seeking approach. More risk, more reward, after all. Right?

Simply put, you've got to be willing to lose your shirt. And while most investors may be ready and willing to go down with the ship, many other investors are investing money that they can't afford to lose. Or worse yet, they're borrowing to invest, which is just insane given the associated risks.

Through the years, I've been either bullish or bearish on certain marijuana stocks at given points in time depending on recent developments. From a long-term perspective, I do believe the opportunity is real and that the industry isn't in a bubble like tulip bulbs were back in the day.

My thoughts on Bitcoin (and cryptocurrencies), however, are not so peachy. It's a textbook bubble, and I've recommended investors to short Bitcoin miners, as they would soon become insolvent as crypto continues to go bust. Unlike marijuana, Bitcoin has no underlying value. In fact, it's a detriment to society and the environment through its preferred use in illicit activities and the energy consumption involved in Bitcoin mining.

I never liked Bitcoin. I did praise certain marijuana stocks in the past, but now that the crypto trade has

gone bust, I think marijuana investors need to be even more cautious, as I'm fairly confident that crypto traders are smelling money through the cloud of marijuana smoke as pot stocks heat up once again.

Think about it. A ton of crypto traders lost a fortune from speculating on Bitcoin and the like. Many are in financial ruin, and while you think they'd learned their lesson, you'd be wrong. In other words, marijuana appears to be their Get Out of Jail Free Card and although I can't prove it, the amplified positive momentum that pot stocks have exhibited of late should be a dire warning for those who are heavily invested in the marijuana market. Case in point: [Cronos Group \(TSX:CRON\)\(NASDAQ:CRON\)](#)) and its rapid recovery from the company's [public bashing](#) by short-seller Andrew Left.

Foolish takeaway

If you lost two-thirds of your investment and had the opportunity to regain it, wouldn't you take that chance? You've already lost your shirt and your pants. What else is there to lose, really?

The marijuana market is a second chance for those who've fallen in financial ruin from crypto, and while you could certainly get rich quickly as Bitcoin traders meet cannabis investors, I'd strongly advise all cannabis investors to take their original principal off the table so they can play with the house's money. The stakes have been raised, and if you're comfortable betting alongside the crypto crowd, only then should you get involved with marijuana stocks at these levels.

If you're a risk-seeker who's keen on betting on marijuana in spite of my warnings, look to overlooked Canadian cannabis firms like **Hydropharmacy** ([TSX:HEXO](#)) instead of pot stocks that are front page news on mainstream financial sites such as CNBC.

Although the bubble status of the pot stocks is still up for debate, I have no doubt that the crypto crowd can turn the marijuana market into one of the biggest bubbles of all time. As Bitcoin continues to decline in value, look for crypto traders to move what remains of their capital into pot stocks. Amplified gains are on the horizon, but it's not going to end well.

Stay hungry. Stay Foolish.

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2. TSX:CRON (Cronos Group)
3. TSX:HEXO (HEXO Corp.)

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