



Greatly Increase Your Odds of Cannabis Investing Success With These 3 Simple Rules

Description

[Cannabis stocks](#) are on fire. It seems practically every day that these companies are reaching new highs. It can be very hard for investors to sit on the sidelines and watch as others get wealthy on these high-flying stocks. But investors who are focused on capital preservation need to focus on one simple question: Are these companies worth what people are paying for them?

Luckily, there is a simple answer to that question: Maybe. Maybe someday they will be worth the price the market is currently charging. Maybe the businesses will even grow further, generating gobs of free cash flow for the opportunistic investors who got in early and held on for the long run. Twenty years from now, people may look back on those early pioneering investors with jealousy after years of missing out on such a lucrative business.

The problem is, there is no way to know. People will make their best guesses and use a bunch of fancy projections to guess what the future holds, but the truth is, it is extremely difficult to know for certain what the outcome will be for these companies. Since these are not stable businesses with predictable, steady cash flows, people need to be aware that any money put into these companies at this point is purely speculative.

Of course, if you want to throw some money at these stocks, it is not the end of the world. A lot of people have made money on these cannabis-related companies, and you could be one of them. But you should have in mind a few simple rules before taking a stab at a marijuana company.

Rule #1: Speculate on the biggest and best players in the space

Put your money into the companies that have the best chance of success. Sector leaders such as **Canopy Growth** ([TSX:WEED](#))(NYSE:CGC) have [the best chance](#) of success. The company has a strong balance sheet with lots of cash and very little debt. Canopy also has a fairly developed product line it sells all over the world, which has generated double-digit revenue growth for some time.

Canopy is a more stable stock price than other cannabis companies may have. Major investors like **Constellation Brands**

invest for the long term and should provide support for the stock price if the sector comes down hard. Canopy is also dual listed on the Canadian and American stock exchanges. The dual listing also gives speculators more liquidity to get out of their positions in the event of a price collapse.

Rule #2: Remember, this is speculation, so don't put your life savings into these companies

Only gamble what you can afford to lose. While I can't guarantee the outcome, I can say with a fairly large degree of certainty that investing in these stocks will be a wild ride. Only put the barest of minimum into it, because there is a high likelihood you will lose a large portion of your investment at some point given the volatility of these companies. But hey, they may also be big winners, too, which leads me to rule number three.

Rule #3: If your position doubles, sell half!

This is probably the most important rule of speculating. Get your money back as fast as you can. After you get your money back, let the rest ride. Of course, you can let your money go as far as you want. But I prefer to continue selling half every time the investment doubles. That way you are continuously locking in gains, as opposed to giving it all back if the stock turns on you.

Speculate with care

Exercise a large degree of caution when speculating. It can be an amazing feeling to watch your stocks shoot up, but let me assure you that it feels doubly horrible if they come careening back down. Follow a few simple rules to increase your chances of success when speculating in high-risk areas such as the cannabis sector.

CATEGORY

1. Investing
2. Stocks for Beginners

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1. Editor's Choice

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