



Marijuanageddon: Here's Why You Should Get Out of Pot Stocks This Week

Description

It's going to be hard for pot stock investors not to be disappointed next week when recreational pot becomes legal in Canada; sales are simply not going to be anywhere near what pot bulls are talking them up to be. And disappointment is dangerous when it comes to stocks.

Want a quick metric to see how hard that crash is going to be? Calculate how widespread that disappointment will extend, and factor in roughly how long it will likely last for.

If there isn't a massive marijuana crash next week, a few bears I know will eat their pot stocks — or they *would*, except that edibles remain illegal until next year. And that's part of the problem here, because leaving a key part of the industry (edibles) in the hands of the black market seriously sours the whole pot stock party. It's just one of the multiple [hidden moving parts](#) that make investing in the green wave a mug's game for anyone who isn't a day trader or short-term momentum investor.

October 17 is Judgement Day for pot stocks

Do you own shares in **Canopy Growth** ([TSX:WEED](#))(NYSE:CGC)? If you do, you have a big decision to make this week. It's probably the strongest pot stock out there at the moment, though holding on to it through legalization is looking increasingly risky. Depending on your position, you may want to consider getting out. Likewise, if you hold competitors like **CannTrust Holdings**, you ought to think about cashing in and saving your assets.

On the flipside, while buying now may seem tempting, the window of upside is slamming shut even as you read this article and is strictly inadvisable for all but the most flamboyant of momentum investors.

Paranoid yet?

Overvalued by over eight times its future cash flow value, Canopy Growth is not a stock for traditional long-term investors today.

A messed up P/E ratio leaves valuation of this unprofitable pot player open to further interpretation: a P/B ratio of 10.9 times book is probably your most accurate reading — probably more so than its future

cash flow analysis, which feels a little conservative from a moderate bear perspective.

An expected annual growth in earnings of 105.2% over the next one to three years in a pretty optimistic estimate that, doubtless, leaves out many of the moving parts that make the potential legal pot industry so [offputtingly complex](#). If low-risk investors think that Canopy Growth's debt level of 50.7% of net worth is satisfactory, they should look at its one-year past loss in earnings of over 1,000% and see what that does to their calculations.

The bottom line

Unless you don't care how much money you lose or can afford to stay in a position long enough for it to trough and then hopefully peak again, getting into pot stocks this late in the game is a bad idea. The gains that were going to be made have, by and large, already been made.

If you really want your pot stocks but don't own any yet, it may well be worth waiting it out for a year to see what the market looks like once it's stabilized somewhat.

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2. Stocks for Beginners

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