



Cannabis Investors, Take Note: 1 Risk That Other Pot Investors Are Ignoring

Description

Cannabis stocks are all the rage. Many marijuana millionaires have been minted, but as we head deeper into the [post-legalization era](#), we could realistically see the profits go up in smoke as investors sell the news in conjunction with the broader market's rotation out of speculative growth stocks.

But it's not a potential "sell the news" scenario or a disappointing judgement day (the first round of earnings covering the post-legalization era) that has me scared if I were a pot investor.

Rather, it's Conservative leader Andrew Scheer's stance on legalized marijuana. He's not the biggest fan of legal weed, and although he hasn't promised to reverse the progress that Trudeau's made during his mandate, he's not ruling it out yet. Who knows? Next year, he may "promise" a reversal of legal weed if it can win him some votes heading into the 2019 federal election which is scheduled in exactly one year from now on October 21st.

Moreover, if Andrew Scheer ends up giving PM Justin Trudeau the boot in next year's election, the long-term weed thesis could go up in a cloud of smoke, as speculators and long-term thinkers head for the exits over a contingent event that every pot investor may have wrongfully thought was more benign on the surface.

While it may seem too early to fear a potential reversal of legalization today, I think investors need to be aware of both the potential loss severity as well as the probability that Scheer win and commits to reverse legal weed.

Let's weigh the "Scheer" risks

So, what's the probability that marijuana could be made illegal again at the federal level?

It's looking like Trudeau versus Scheer. Although NDP Leader Jagmeet Singh may end up having a good run, history suggests that Canadians have historically bounced between the Liberals and Conservatives, a trend that's probably going to continue happening, at least over the near future. Moreover, when you consider the recent election polls, it's looking like it's going to be a coin toss as to whether Trudeau or Scheer will take the helm.

So, around 50/50 odds that Scheer wins.

What's the probability that Scheer reverses legalization?

Nobody knows, but if I were to guess, I'd say that Scheer's commentary on legal weed moving forward will be enough to drive pot stocks down by high double digits, well before the election aura is in the air.

If Scheer were to reverse legal weed, thousands of weed-related jobs could be lost, so at this juncture, Scheer's looking to play it cautiously as it may not be in his best interest to have a firm stance.

Now, what would be the loss severity if legal weed were to be reversed?

We could easily see pot stocks lose well over +90% of their value in what'll seem like an instant. Sure, some pot stocks like [Canopy Growth \(TSX:WEED\)](#)(NYSE:CGC) are poised to become dominant international leaders in the pot arena, but if Canada were to reverse what's been rolled out by Trudeau, we could see a serious reversal of progress at the international level as other nations vow to not repeat the back-and-forth lifting of prohibition before all political parties are on the same page.

If a reversal of legal weed were to happen, Canopy and other producers that have made significant international strides might stand to fall to a lesser magnitude, but they'll still lose a high double-digit percentage amount, and an abrupt rebound will probably be out of the cards. So, for many investors, these may be permanent losses that could be realized.

Foolish takeaway

If you're betting on pot stocks, you're going all-in on a bet that Scheer doesn't win the next election, or if he does, you're betting that he's not going to turn back the tide when it comes to the legalization of marijuana.

I don't know about you, but I'm not a huge fan of those odds, especially when you consider the easy money's already been made in some of the frothier pot stocks. Yes, I'm looking at you, **Tilray**!

Now, many potential bullish contingent events could cause the broader marijuana market to continue to garner momentum (U.S. legalization of CBD? THC?), but I think pot investors need to weigh the risks of a Scheer victory and what kind of havoc it would cause to their portfolios.

If you're confident that a "Scheer" risk won't derail the longer-term thesis or if you think Canada's producers can weather that storm, only then would I recommend betting on pot stocks at these levels.

You can get rich from speculating, but keep in mind that you're not getting a free lunch when it comes to the amount of risk you'll be taking on to get the significant upside.

Stay hungry. Stay Foolish.

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