



Warning: Stay Away From Marijuana Stocks Unless You're Prepared to Lose Big Money

Description

Much has been written about marijuana stocks, and rightly so, because a lot has happened.

There's the historic ruling to [legalize marijuana](#) in Canada for both medicinal purposes and recreational purposes. And then there's company-specific news, as we follow marijuana growers and their feverish rise to meet cannabis demand in Canada and worldwide.

These companies' stocks have had astronomical gains since January 2017.

Canopy Growth ([TSX:WEED](#))(NYSE:CGC) has risen 510%, **Aurora Cannabis** ([TSX:ACB](#))(NYSE:ACB) has risen 330%, and **Aphria** (TSX:APHA)(NYSE:APHA) has risen 216%.

So, despite recent weakness and continued volatility, fortunes have been made. If you have stayed away, you may be kicking yourself and contemplating joining the party now. Exercise caution, however, because with all of this, emotions are running high, from euphoria to fear to possible regret due to missing out. But don't act out on these emotions. Stick to your discipline, your [investing principles](#), and your knowledge of the facts.

I would like to go back in time. Back to the dot-com bubble days. The internet is obviously the real deal — a game changer. But back in the late 1990s/early 2000s, not everyone was willing to participate in buying internet stocks, as valuations had formed a bubble.

Warren Buffett famously stayed away from these stocks, even as investors and shareholders criticized him and questioned whether he had lost his touch. And this lasted for what probably felt like a really long time for him, as he suffered massive underperformance compared to investors who participated in the bubble, who raked in big gains.

Then it happened. The bubble burst, with the NASDAQ falling 74% from highs of \$4,800 in March 2000 to \$1,200 in August 2002. It remained below \$4,800 until 2015. That's almost 15 years.

Investors had plenty of time to assess the remaining internet stocks that survived this carnage and buy

them at more reasonable valuations, with fewer unknowns, and backed by actual fundamentals and lower risk.

Warren Buffett is concerned with the preservation of capital and making sure the odds are stacked in his favour, not in getting swept away with potential upside that may never come — as we should be.

That is why I am still on the sidelines when it comes to marijuana stocks.

Patience is key. We want to buy and sell stocks based on actual fundamentals, not on our feelings and sentiments.

Canopy Growth will be reporting next week, with analysts expecting a loss of \$0.011. The cannabis stock's EPS estimate for its next quarter is for a loss of \$0.04.

Fulfillment issues, supply shortages, heavy spending, and dilution have been the key issues that represent risk to the marijuana stocks. These issues translate to downside risk to estimates for this coming quarter at least.

And given Canopy Growth stock's lofty valuations and high expectations, a miss would be a disaster for the stock.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NASDAQ:ACB (Aurora Cannabis)
2. NASDAQ:CGC (Canopy Growth)
3. TSX:ACB (Aurora Cannabis)
4. TSX:WEED (Canopy Growth)

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