



Why Marijuana Stocks Could Lose 90% of Their Value

Description

As Bitcoin continues to go bust alongside the broader appetite for speculative, high-flying investments, the probability of a catastrophic implosion in the cannabis market at some point over the next year looks to have been raised substantially.

Now, a considerable amount of damage has already been done with **Aurora Cannabis** ([TSX:ACB](#))(NYSE:ACB) and **Canopy Growth** ([TSX:WEED](#))(NYSE:CGC) stock falling 47% and 40%, respectively, from their all-time highs. And while such dips are nothing out of the ordinary in the crazy world of cannabis, the current dip may not be a one that'll reward investors with an abrupt bounce as they have every time in the past.

Buying the dip isn't working anymore

Just have a look at the stock market as a whole. Buying on the dip doesn't seem to be working anymore, as many investors who've tried to scoop up the hardest-of-hit growth stocks on the most recent dip have been punished with substantial downside over a very short period.

A ton of growth names are already in a bear market, and we've witnessed many instances in which sound quarterly results didn't matter whatsoever. It was all about forward-looking guidance and the tone of management regarding the year-ahead outlook.

It didn't matter if the third-quarter results were outstanding or if guidance was a tad short of expectations; the stock took a major hit to the chin, triggering a chain reaction of selling activity that went off across the markets.

Recent market moves have become less about the results of individual companies themselves and more about herding, information cascading, and fear given the inevitable slowdown that lies ahead.

Now, there are no signs of a recession yet, but nonetheless, it certainly feels like investors are feeling less sanguine about anything to do with growth this time around. As a result, we'll probably see a continued rotation out of growth and into dividend-paying value stocks in the year ahead.

In such a scenario, I expect pot stocks will continue to retreat, especially if the Fed beckons the bear to come out of his cave.

Pot plus a bear market equals a dangerous combo

Marijuana stocks have been choppy as the bull markets roared over the past few years, but now that the bull is on life support, I'm not so sure that a marijuana bull market can be sustained without the broader markets recovering from their slump.

Simply put, a dip in pot stocks in a bull market and a dip in a bear market aren't going to have the same outcome. And as we head into tax loss selling season, we could see pot stocks exhibit double-digit percentage movements to the downside as investors rush for the exits in spite of any seemingly positive news events.

While I'm sure you've heard the "sell your pot stocks before the bubble pops" story ad nauseum over the last three years as pot stocks doubled-up many times over, I was one of the few Fools who advocated [buying pot stocks on prior dips](#). This is one of the few dips that I'm recommending investors to sell because I'm convinced that the bear will emerge from his cave, which could spell curtains for the marijuana trade as we know it.

Foolish takeaway

I think we're already in the middle of a bear market, and unless you can stomach amplified +90% losses in your pot stocks in the coming months, I'd recommend taking your original principal off the table and playing with the house's money because pot stocks and a bear market are a perfect combo for massive unrecoverable losses.

If you have plenty of the house's money to play with and you're keen on staying the course in spite of the hideous environment that lies ahead, Canopy Growth is the only horse I'd bet on, as it's fallen to a much lesser magnitude versus its peers in prior cannabis corrections.

It's also the only pot stock with a relative level of support thanks to its dance partner in **Constellation Brands**.

While Canopy could certainly [bounce back to \\$100](#) by year-end, I think such a bounce will be dependent on whether the **S&P 500** can find its footing. If it can't, Canopy could just as easily hit \$20 before it breaks the triple-digit mark, while other pot stocks free-fall with no support level in sight.

For the average investor, I'd recommend not playing marijuana at all this time around, especially not as we move closer to a bear market in the broader stock market.

Stay hungry. Stay Foolish.

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TICKERS GLOBAL

1. NASDAQ:ACB (Aurora Cannabis)
2. NASDAQ:CGC (Canopy Growth)
3. NYSE:STZ (Constellation Brands Inc.)
4. TSX:ACB (Aurora Cannabis)
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Author

joefrenette

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