Investors: Play Defence With Marijuana Stocks Like Canopy Growth Corp (TSX:WEED)

Description

The more things change, the more they stay the same.

So far in 2019, marijuana stocks have really been illustrations of this famous saying.

After a very rough end to 2018 that saw marijuana stocks such as **Canopy Growth** (TSX:WEED)(NYSE:CGC) stock, **Aurora Cannabis** stock, and **Aphria** stock fall between 50% and 60% from their highs, 2019 has seen them bounce back big.

Year to date, these marijuana stocks have doubled or almost doubled, as volatility remains the key characteristic of these stocks, which means that they are not for every investor.

For those investors who are willing to take on this risk, caution is still warranted. Investors should play defence on these stocks to limit their downside exposure. We should take profits when these stocks provide us with booming returns by at least trimming our positions to reduce our skin in the game while still maintaining exposure.

For example, if you'd invested $10,000 of your $200,000 portfolio in Canopy Growth stock at the beginning of the year (5% of your portfolio), your investment would be worth approximately $18,000 (for a capital gain of approximately $8,000).

But now your Canopy Growth stock holding would represent much more than 5% of your portfolio, exposing you to more of this volatile stock than you had initially planned.

If you decide to trim your position after this spectacular performance by selling, say, 100 shares, you would receive $6,500 (for a capital gain of approximately $2,900), thereby monetizing part of your gain and reducing your exposure and downside risk, while maintaining some exposure to this high-growth stock.

Another way to manage this volatile segment of the market would be to own a basket of marijuana stocks, spreading your risk among different companies.

After Aphria's experience with the short-seller report, we can see how these stocks are very vulnerable to many company-specific setbacks. In an emerging industry, this risk is exacerbated by the lack of visibility, lack of diversification, high capital-spending requirements, and the general inexperience in this sector, which has many opportunities but also pitfalls.

In mid-February, we can expect to hear from many of these companies when they report their quarterly results.

This update will be key since their stock prices are once again factoring in an abundance of good news.

Higher-than-expected spending, shareholder dilution, and slower-than-expected revenue growth would be very detrimental to stock prices.

On the flip side, if these companies can show strong, better-than-expected financials on an aggregate as well as a per-share basis, it seems like the stocks are factoring a lot of that in already.

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