Warning: Marijuana Stocks Can Be Hazardous to Your RRSP

Description

Marijuana stocks are probably the trendiest thing on the TSX right now. Although they're not getting as much attention as they did last year, they're still among the most talked-about Canadian stocks.

For investors looking to get rich, marijuana stocks may be just the ticket, with the high volatility needed to profit big off short-term swings.

For RRSP investors, it's a different story, however. If you're saving for retirement, marijuana stocks are probably the last thing you should put your money in. Although these stocks can generate high returns, they have the potential to do just the opposite, and your RRSP is not the place for gambling.

There are three factors that make marijuana stocks absolute RRSP no-nos; we can start with the most obvious.

High volatility

Marijuana stocks are generally extremely volatile, which can be demonstrated mathematically by looking at their beta coefficients. Beta is a measure of how volatile a particular asset class is compared to the benchmark (in this case the TSX); 1.0 indicates average volatility, above 1.0 is higher than average.

In the past three years, **Canopy Growth Corp's** (TSX:WEED)(NYSE:CGC) beta has been 4.26–more than quadruple the benchmark. This means that the stock's price tends to swing dramatically up and down, with big losses followed by big gains. This is exactly the kind of thing you don't want in your RRSP, as retirement funds are supposed to be safe, not risky. If you're an antsy investor and you buy Canopy shares, you may find yourself panic selling on one of the dramatic downswings, with the end result that your retirement savings will shrink.

No dividends in sight

When you invest for retirement, you ideally want investments that will generate income. The reason being, you'll need a steady supply of income to make up for the fact that you're no longer earning a salary. Although you can generate retirement income by actively trading and using cashed-in gains to draw on your RRSP, dividends are ideal because they let you keep generating income without selling.

Unfortunately, marijuana stocks probably aren't going to be issuing dividends anytime soon. The problem is that their operating losses are still too large to pay dividends. In its most recent quarter, **Aurora Cannabis Inc** (TSX:ACB)(NYSE:ACB) had an operating loss around $80 million. That means that the company is not earning enough from its operations to pay anything out. And if the company does become operationally profitable, it won't necessarily start paying dividends right away, because it may want to reinvest its profits in future growth.

An uncertain future

A final point against holding marijuana stocks in an RRSP is the fact that the industry has an uncertain future ahead of it. This can be best illustrated by **Aphria Inc** (TSX:APHA)(NYSE:APHA). In the past six months, the company has faced short attacks, lawsuits, hostile takeover attempts, and a major management shake-up. This is not the mark of a stable company you can count on for the long haul. And what's true of Aphria is true to a lesser extent of all cannabis stocks. These are highly speculative plays that are ideal for short-term trading, but not suited for retirement investing.

Should you trade weed stocks? Maybe. Should you hold them in your RRSP? Not a chance.

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2. NASDAQ:CGC (Canopy Growth)
3. TSX:ACB (Aurora Cannabis)
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Author
andrewbutton