3 Lessons Every Cannabis Stock Investor Will Learn

Description

Cannabis stocks can make you rich. They can also destroy your portfolio. Knowing how to invest in this volatile industry can mean the difference between making millions and losing it all.

Fortunately, you can sidestep several classic mistakes by learning from others. Plenty of investors have lost money buying and selling pot stocks. You can learn from these lessons to make sure you don't repeat them.

Embrace the volatility

While it's risen in popularity, cannabis is still an early-stage industry. In most jurisdictions throughout North America, pot remains illegal. Even where it is legal, growers and sellers are struggling to fit into the existing regulatory climate.

The players of tomorrow likely won't be the players of today. Whether the industry will remain fragmented or undergo rapid consolidation is yet to be seen.

What is certain, however, is that the market potential is huge. According to Fortune Business Insights, the global cannabis market should grow from US$10.6 billion today to nearly US$100 billion by 2026. That's an annual growth rate of 32%!

But just because the market is growing over the long term doesn't mean there won't be hurdles along the way. If you're bullish on the industry, be prepared for volatility — market gyrations can give you incredible buying opportunities.

Just take a look at **Canopy Growth**. Since 2018, the stock has lost 20% or more of its value several times. In each case, it's ultimately been a buying opportunity. This sounds doable in theory, but it can be difficult to double down after a steep drop. Be prepared.

Play the long game

Because the cannabis industry is in its infancy, many companies are still scrambling to get their operations online. Many investors would scoff at buying a pre-revenue company. That's what is caused some pot stocks to trade at a big discount. But once revenues start pouring in, market sentiment could reverse quickly.

Green Organic Dutchman Holdings (TSX:TGOD) is a textbook example. The company has a $900 million market cap, despite generating less than $3 million in revenues last quarter. But the company should see exponential growth in production next year. Because it's essentially pre-revenue, the stock is trading at a discount to its peers.

Next year, analysts expect the company to generate at least $250 million in sales. The stock could end up trading at less than four times sales. For a hyper-growth industry, that's a steal. Don't be afraid to play the long game and gamble on early-stage companies — that's where the biggest gains will be made.

Go big

While going small can add big upside to your portfolio, going big may result in superior risk-adjusted returns. By going big, I mean trusting your dollars with a proven multi-billion-dollar company like **Constellation Brands** (NYSE:STZ).

Constellation already owns 40% of Canopy Growth stock, with options to force a majority stake or even an outright acquisition. If the cannabis industry ends up consolidating like the tobacco industry, Constellation could end up a big winner for being early.

While many international companies are avoiding cannabis, Constellation was willing to take the risk. By purchasing its stock, investors are getting a discounted way to play the industry's boom. That's because Constellation stock trades at just 21 times forward earnings.

With a deep pocketbook and long-term vision, Constellation's management team has a great opportunity to take the pot industry by storm. Most investors are buying pure-play cannabis producers, but behemoths like Constellation are likely the lowest-risk ways to play.

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