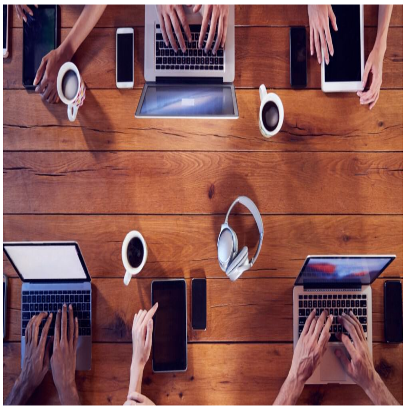

Millennials: Here’s Why You Shouldn’t Gamble on Marijuana Stocks

Description

Marijuana stocks are extremely popular with millennials. That’s the inference of data from the millennial-dominated trading app Robinhood, which recently revealed that marijuana stocks made up two of the nine most popular stocks on its platform.

Two out of nine is 22%, making marijuana stocks much more widely owned on Robinhood than in the markets overall. Robinhood does not represent all millennial investors, but as an app with mostly millennial users, there is strong overlap between its user base and that age cohort.

Unfortunately for millennials, marijuana stocks are tanking this year. **Aurora Cannabis**, the most popular stock on Robinhood, is down 5% to date, and other marijuana stocks, like **CannTrust Holdings Inc** (TSX:TRST)(NYSE:CTST) are down as much as 75%.

Although you could have made money by buying marijuana stocks early, you’d have lost money by buying even the best-performing marijuana stocks this year.

If you’re a millennial investor, you may find yourself swayed by the hype surrounding weed stocks. If you feel that’s the case, it’s best to resist the urge to take the dive. Here’s why:

They’re extremely volatile

Beta is a measure of the volatility of a stock; that is, how dramatically it swings up and down compared to the market as a whole. The higher a stock’s beta coefficient, the bumpier your ride will be–and marijuana stocks are nothing if not volatile.

Over the past three years, CannTrust Holdings has had a beta coefficient of 4.62, meaning it’s more than four times as volatile as the market. Put simply, if you buy TRST, you’re going to have a bumpy ride–and if present trends continue, you’ll mostly lose money in the long run.

The fact that marijuana stocks are trending downward is alarming in itself. However, even if you buy a weed stock that's a long-term winner, you could easily lose money by panic selling on downswings.

The psychology of panic selling

Loss aversion refers to the tendency of people to fear losses more than they desire gains. It's the psychological principle underlying the phenomenon of panic selling, whereby investors sell on downswings even if their long term prospects are good.

Studies show that people are about twice as averse to losses as they are keen for gains. In other words, not losing $10 is better than getting $10.

The psychology of panic selling is something *all* investors have to keep in mind. But with marijuana stocks, it's particularly important to be wary of–and probably a reason to avoid the asset class altogether.

As a case in point, we can look at **Aphria Inc**. Unlike CannTrust, Aphria is not overwhelmingly bearish right now. After a surprise earnings report that showed operating profits and a 969% year-over-year revenue growth rate, it has traded mostly flat.

However, even with a better long-term trend than CannTrust, it's still not safe for those susceptible to loss aversion. With a beta coefficient of 3.7, it's nearly as volatile as CannTrust, which means it sees plenty of dramatic swings that could trigger panic selling.

This is a problem because even if the stock rises over the long term, it has the potential to trigger psychology that could cost you money.

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