



Has the Cannabis Bubble 2.0 Popped?

Description

The recent parabolic rise we've seen in cannabis stocks came to an abrupt end on Thursday and Friday this past week. This was reflected in shares of the **Horizons Medical Marijuana Life Sciences ETF** ([TSX:HMMJ](#)). This ETF tracking the broad cannabis sector ended the week down nearly 30% from its peak on Wednesday.

Investors may now be wondering: Does this mean the cannabis bubble has popped, once again?

Cannabis stocks appear to be moving in lockstep

Shares of **Canopy Growth** ([TSX:WEED](#))(NYSE:CGC) were down by almost the exact decline in the HMMJ. This makes sense, since Canopy is the largest holding in this fund. In fact, Canopy shares make up approximately one-sixth of the total holdings of this ETF. So, what's driving these outsized moves?

I think a key factor may be at play with these stocks today. Namely, the rise of the retail investor. More specifically, the rise of social media-influenced investing via forums such as Reddit's "WallStreetBets" thread.

What's interesting to me is looking at just how closely correlated so many cannabis stocks are today. When the **AMC** and **Gamestop** bubbles were inflating, these stocks were moving in near lockstep with each other. It appears massive amounts of liquidity are being funneled into and out of trades in very short windows. Retail investors are acting as a herd, and forcing stock prices up (and down) in volatile swings. Timing these swings seems impossible to do, so when these trades turn around, some investors get caught holding the bag.

Speculation driving stock price increases rather than fundamentals

Institutional money is now being channeled into trying to tap into retail investor sentiment on such forums. Retail investors are getting a lot of respect these days. Indeed, Wall Street is changing in terms of its influence over the masses. The rise of zero-fee trading has brought on a new era of investor who seems less concerned with Wall Street analyst reports and more concerned about what stocks his fellow brethren on Reddit are picking.

This is speculation, pure and simple. Thinking one is “investing” by piling into an already crowded trade with tons of momentum is dangerous.

I think this sort of investing mentality is not only dangerous but is one that promotes the formation of bubbles. I do think the cannabis sector is one which is prone to the formation of bubbles. Similar to [cryptocurrencies](#) or other tech companies with no earnings to speak of (but insane growth projections), the inherent value of these assets is highly debatable. This provides the backdrop for bubbles to more easily form in the short term.

Bottom line

Yes, I think we’re in probably the biggest bubble in history. In some sectors, like cannabis, I think this bubble is more evident than others.

Whether this bubble has popped or will reflate again remains to be seen. However, I would encourage Foolish investors to steer clear of the madness and focus on investing in high-quality company with strong balance sheets, historical earnings, and proven return on invested capital metrics.

CATEGORY

1. Cannabis Stocks
2. Investing

POST TAG

1. Cannabis
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TICKERS GLOBAL

1. NASDAQ:CGC (Canopy Growth)
2. NYSE:AMC (AMC Entertainment)
3. NYSE:GME (GameStop Corp.)
4. TSX:HMMJ (Horizons Marijuana Life Sciences Index ETF)
5. TSX:WEED (Canopy Growth)

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