1 Volatile TSX Marijuana Stock to Avoid Holding in Your RRSP or TFSA

Description

Your Registered Retirement Savings Account (RRSP) and Tax-Free Savings Account (TFSA) should hold a mix of well-diversified stocks and bonds, with solid fundamentals and long-term potential. The goal here is to grow wealth slowly and sustainably, taking measured risks and letting investments compound.

So it blows my mind when I see investors staking their hard-earned RRSP and TFSA contributions on speculative, volatile stocks. These stocks can swing wildly each trading day, either going to the moon or cratering with a massive loss. Their movements are not based on any discernible catalysts and certainly not backed by any fundamentals.

Holding these stocks in an RRSP or TFSA is sub-optimal. Yes, you can reap fat tax-free or tax-deferred gains. You can also end up with a large capital loss that you cannot claim against capital gains for the year. In a taxable account, you can, which makes speculating somewhat less risky.

Aurora Cannabis

Aurora Cannabis (TSX:ACB)(NYSE:ACB) is a Canadian licensed cannabis producer. Currently, it has eight licensed production facilities, five sales licences, and operations in 25 countries. It is also one of the worst-performing TSX stocks of 2022, posting a year-to-date return of -26.8%.

ACB stock is highly volatile, with a beta of 3.08. For reference, the market has a beta of 1.0. A stock more volatile than the market has a beta greater than 1.0. A stock less volatile than the market has a beta less than 1.0. With a beta nearly three times that of the market, ACB is a highly risky play.

Coupled with poor fundamentals in the form of a -254% profit margin, -119% operating margin, -6.7% return on assets, -29.1% return on equity, -11.1% year-over-year quarterly revenue growth, and a diluted earnings-per-share of -3.2, I would avoid holding ACB long term in a TFSA or RRSP.

Put your money elsewhere

Frankly, ACB and the rest of the Canadian marijuana sector have been a disappointment for investors, having failed to achieve the explosive growth and shareholder value predicted in 2018.

The sector’s dominant exchange-traded fund (ETF), **Horizons Marijuana Life Sciences Index ETF** dropped over 52% in the last 365 days, as its underlying companies continually post poor earnings, fail to achieve profitability, or miss revenue projections.

For a swing trade in a taxable account, the high volatility of ACB might be a benefit. Even if the trade goes wrong and you sell, at least you can book the capital loss against future capital gains.

Not so in a TFSA or RRSP. Selling for a loss there means a permanent destruction of valuable and finite contribution room. For those accounts, I would skip risky stocks like ACB and buy safer assets like an all-in-one asset allocation ETF.

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