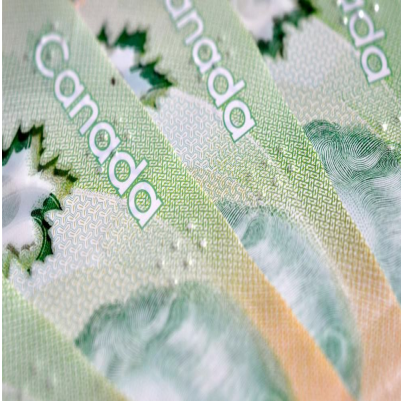




How to Make Money From Massive Volatility in the Cannabis Sector in 2020

Description

Talking about volatility in investing is often a one-sided conversation. In other words, most people expect a stock to go up or down, but typically in one direction.

With the Canadian cannabis industry, any investor who has seen a stock chart of the **Horizons Marijuana Life Sciences Index ETF** ([TSX:HMMJ](#)) will know that volatility on both ends of the spectrum has made many investors very rich, and others very poor, in a short amount of time by betting one way or the other.

Take a look at the stock chart of HMMJ for any one-year period and you'll see that a 50% increase or decline on a given 12-month year-over-year time frame seems to be the norm over the past couple of years.

My take on the cannabis industry is that it is still in its infancy; stock price moves are large on a day-to-day basis, and generally follow the sentiment of the market, or various news items that arise, allowing for massive stock price movements in short amounts of time.

This presents a unique opportunity for investors to make short-term bets on the market, and win or lose significantly on a day-to-day or week-to-week basis.

From a Foolish (with a capital F) perspective, this sort of investing methodology is not prudent for those wishing to stick around for a long time, which is why I would encourage long-term investors to steer clear of this space altogether.

That said, there is money to be made with volatility, and for those who are willing to put their money on the line to trade this zoo of a sector, there is a time-tested strategy that investors can capitalize on this potential future volatility (if the pricing is right).

Straddle option

For those with absolutely [no idea](#) which direction the cannabis sector is heading – like me – (or don't

care from a fundamental investment standpoint because it's too volatile), buying a straddle option is a great way to capitalize on said volatility.

Buying a put option and a call option with the same expiry date allows an investor to make money on swings over and above a certain percentage (i.e. +/- 10%). The amount one pays for the options, how long-dated the options are, and which companies/indices are the reference point will determine the breakeven point for an investor.

Options prices change like stock prices, and are priced according to the underlying volatility of the security/index in such a way that it is indeed difficult to make money with options (there is one winner and one loser with an option), so this is indeed an advanced trading strategy.

For those interested in such a strategy or want to learn more, I recommend researching this strategy further or talking to an investment advisor before making any decisions.

Bottom line

If you're an investor who also believes that volatility is likely to remain the norm in the cannabis sector, engaging in a straddle trading strategy could prove to be very profitable this year.

Options trading is only for advanced investors, and involves increased risk relative to equity trading, so proceed carefully.

Stay Foolish, my friends.

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1. TSX:HMMJ (Horizons Marijuana Life Sciences Index ETF)

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Date

2025/08/20

Date Created

2020/01/26

Author

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