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Crypto and Cannabis Are the Perfect Post-Crisis Bubbles

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Take-Aways

- Cryptocurrencies and shares in cannabis companies are primed to become the next investment bubbles to explode.
- Millennial-aged men, who were children when the 2000 dot-com bubble burst, are largely responsible for the current round of speculation.
- Speculators are especially fond of cannabis stocks because they are so volatile, but institutional investors avoid them, because their legal outlook remains unclear.
- Despite increasing acceptance, many still view digital monies and marijuana as anti-establishment investments.
- With regulation still in flux, investors believe they are getting in on the ground floor, before Wall Street can catch up.

Recommendation

From 2000 to 2002, investors learned how brutal the stock market could really be, as the dot-com bubble burst and technology stocks plunged. Today, millennials too young to remember that catastrophe are behind the trading in digital currencies and marijuana stocks, whose values rise and fall with startling swiftness, making them all the more attractive to speculators. With their grass-roots following, crypto and cannabis are lining up to be the textbook bubbles of the modern era, writes financial journalist Joe Wiesenhal. His concise take on a new investment landscape will interest investors and traders.

Summary

In the years since the 2008 financial crisis, many investors have viewed index funds, low fees and periodic portfolio rebalancing as the ingredients for profitable investing. Yet two speculative investments, cryptocurrencies and shares in cannabis businesses, are primed to become the next bubbles to explode. Early warning signs include 2017's bitcoin mania, which sparked wild speculation in digital monies. For a few hours in September 2018, investors' exuberance for cannabis company Tilray inflated its share price so much that the firm's market value surpassed those of American Airlines, Tiffany and Campbell Soup.

"Despite their different paths, the crypto and cannabis bubbles are unmistakable siblings."

Millennial-aged men, who were children when the dot-com bubble burst, are largely responsible for the current round of speculation. They probably don't recall late-1990s dicey deals such as Uniprime Capital Acceptance, a car dealership that claimed to have found the cure for AIDS, or the overhyped merger of Time-Warner and AOL that destroyed much of both companies' value. Contrast the excessively optimistic enterprises of that period with bitcoin, the digital currency designed to withstand a world collapse and the demise of the banking system. Bitcoin retains a strong fan base, despite its dizzying 2018 fall in value.

"Crypto 'is a market not born of optimism and dreams of a Lamborghini in every driveway, but of pessimism and mistrust. It first sprang to life a decade ago while the world was collapsing.'"

In the span of a few years, marijuana has gone from a counterculture vice to a legal recreational drug in a number of American states. These days, a handful of publicly traded pot companies have a loyal cadre of investors trading their shares and following their finances with analytical precision. Speculators are especially fond of cannabis stocks because they are so volatile, but institutional investors avoid them, because their legal outlook remains unclear. This makes the shares one of the few areas in which individuals, rather than institutions, have the upper hand and can maneuver most effectively.

"Both crypto and cannabis have the same meta-story about getting back at corrupt elites.'"

Despite increasing acceptance, many still see digital monies and cannabis as anti-establishment investments, with marijuana as an alternative to traditional medicine and the answer to the war on drugs,

and with crypto as a stand against central bank policies and taxpayer-funded rescues of big business. With regulation still in flux, investors believe they are getting in on the ground floor, before Wall Street can catch up. From a psychological standpoint, that makes crypto and cannabis ideal investments for the modern age.

About the Author

Joe Weisenthal is executive editor for digital news at Bloomberg.



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