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Forget Pot, Crypto, and SPACs. Why Pros Say Retirement Savers Should Avoid Fads

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The chance to invest in a weed company may seem dope to retirement savers looking for a 10xer, but financial pros say safer and steadier are the ways to invest savings for the future.
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Fear of missing out on a life-changing score can be a powerful motivator, but financial pros say retirement savers should resist the latest fad investment ideas like marijuana stocks, cryptocurrencies, and SPACs and stick to safer investments.

Marijuana stocks tend to be overvalued, the future of cryptocurrencies is too unpredictable, and special purpose acquisition companies, or SPACs, are simply too risky for the average investor, says Clark Kendall, CEO of Kendall Capital in Rockville, Md.

“The market has rallied quite a bit from the pandemic lows, people have had extra money in their pocket, and they’ve had extra time to look at their computer screens, and I think that’s driven up a lot of the cryptocurrencies, cannabis stocks and even SPAC investing, without people doing their due diligence as to why they should make an underlying investment,” Kendall says.

Dan Keady, chief financial planning strategist at the Teachers Insurance and Annuity Association of America, or TIAA, says interest in these investments is strongest among younger investors, who recognize that they have decades before retirement to recover from a bad investment decision. But young workers should remember that with 30 or 40 years to compound, safer investments in mutual funds and other traditional investment vehicles can balloon, he says.

Keady recommends that investors write down their retirement goals, a practice that "can often pull you away from more-speculative investments." If investors feel compelled to take a swing at a potentially life-changing return, they should view it as a form of entertainment and limit their investment to a small amount that they can afford to lose, he says.

"If you're putting in enough money that you could derail your long-term goals, don't confuse that with a financial plan," Keady says. "Often when you have something that is extremely speculative, it doesn't end well."

Here's why retirement savers should skip these three investment fads, according to Kendall and Keady.

● **Marijuana stocks**: Many publicly traded cannabis companies have yet to turn a profit and are overvalued, with investors figuring that marijuana eventually will be legalized at the federal level, fueling robust industry growth, Kendall says.

Take Curaleaf Holdings (ticker: CURLF), for example. With a market capitalization around $10 billion, the company is trading at roughly 10 times its annual sales, based on first-quarter revenue of $260 million. The company lost $17.2 million in the first quarter.

"If you look at many of the cannabis stocks, they're trading not on a multiple of earnings, because many of them don't have earnings, they're trading on a multiple of sales," Kendall says. "They're burning money and really only have enough cash to make it three or four years out, depending upon how quickly they can increase their revenue."

Even if marijuana is legalized at the federal level, it's hard to predict which companies will succeed, Keady says.

“People often say, ‘I wish I had purchased XYZ stock right before it got big,’ but they forget about the 10 others that didn’t go forward and make huge money,” Keady says. “Who wins and who loses can be difficult to predict.”

● **Cryptocurrencies**: Bitcoin and other cryptocurrencies have come under increased scrutiny lately due to environmental concerns over the huge amount of electricity needed to mine some kinds of coins, and because cryptocurrencies are the payment method of choice in ransomware attacks. They also fluctuate wildly in price, making them too risky for retirement savers, Kendall says.

Bitcoin, for example, has ranged from $9,088 to $64,863 over the past year. It recently was trading around $30,000 and fell below that level this past week.

“The technology is fascinating, but we also know that it’s hard to predict what’s going to happen in the future,” Keady says.

● **SPACs**: Sometimes called “blank-check companies,” SPACs begin with no assets or operating business. They raise money with an initial public offering of stock and use those funds to acquire another business. After the IPO, a SPAC’s management team typically has two years to complete an acquisition, which must be approved by the SPAC’s shareholders.

If management fails to make an acquisition within two years, it must return the SPAC’s funds to investors. When an acquisition is completed, the management team typically receives 20% of the equity in the company through “founders’ shares.”

One concern for SPAC investors is that as management runs out of time to complete an acquisition, it may agree to a deal that isn’t in shareholders’ best interests to avoid missing out on that 20% finder’s fee, Kendall says.

“I’m not even sure I’d give Warren Buffett 20 cents out of every dollar,” Kendall says. “I don’t need to pay a 20% premium to buy these companies. There are plenty of good companies in the microcap and small-cap world that, relative to a SPAC, are 20% cheaper.

"I go by the simple rule: What's the future cash flow? How predictable is it? And what's the present value of that future cash flow? And I think that keeps you disciplined, it keeps you excited about investing when the market goes down, and it prevents you from standing on a landmine when markets get too frothy."

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