



When Should You Invest in Canopy Growth Corp.?

Description

Canopy Growth Corp. (TSX:CGC) was initially seen as the must-have stock to buy, but the stock appears to have retreated from its former high in just a little over two weeks.

What's all this about Canopy?

Canopy's spectacular growth and subsequent fall have been mentioned on more than one occasion, and experienced investors have seen similar events in countless other stocks over the years.

Over the past month, the stock has shot up and dipped back down several times over. Indeed, a legal marijuana production industry is still fairly new, and Canopy, in catering to this emerging industry, has garnered a huge amount of interest and excitement. On average, nearly 10% of all activity on the TSX Venture index over the past week has been attributed to marijuana stocks like Canopy.

While the U.S. presidential election that resulted in Donald Trump becoming the next president-elect of the U.S. stole much of the news on November 9, there was something else on the ballot the day before that helped propel Canopy up.

Several states, including California, Massachusetts, Maine, and Nevada let voters decide as to whether or not marijuana should be legalized. While those states ultimately voted in favour of the measure, the complicated classification of marijuana across different state laws and a complex codex of federal laws leave the interpretation open as to what exactly was legalized or how (and, more importantly, when) anything will actually change.

Now throw in the unexpected victory of Donald Trump and the uncertainty the new administration will bring to the equation, and you begin to see the volatility surrounding the stock, at least in the short term.

Despite all of this, the stock still shot past the \$2 billion valuation level briefly before dropping back down. Since that surge, the stock has retreated over 37% and further drops are likely in sight before this story unfolds. By way of example, as I write this, the stock is down over 17% for the day. Ouch.

Where will Canopy end up?

A legal marijuana market is something entirely new, and, at the same time, it's not entirely certain. Adoption across different jurisdictions is complex; laws across multiple levels of government need to be unraveled, and the initial speculation surrounding the stock needs to settle.

Industry pundits speculate that it may be sometime in 2018 before many of those issues are completely addressed and the volatility around the stock finally ends.

As for Canopy, the emotional factor around the stock that has sent a flurry of investors in and out of the stock in quick succession may eventually fade, but not without more highs and lows.

While the business itself shows promise and significant long-term potential, at this point in time the stock is far too volatile to warrant an investment, except for those that are accepting of the considerable risk that Canopy represents.

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