

Why I'd Buy Canopy Growth Corp. at \$7

Description

The recent selling in **Canopy Growth Corp.** (TSX:CGC) is a test of an investors' mettle. Canopy Growth has been as high as \$16 and change intraday. Recently, it has traded down to \$8 or so. Is it time to fade the stock or is it time to buy?

When a new stock like Canopy Growth is traded on future values in a new industry, it is difficult for the market to decide its proper valuation because there are no accepted standards of measure. In 1997 **Amazon.com, Inc.** ([NASDAQ:AMZN](#)) IPO'd at \$18 per share and surged during the dot com boom before trading as low as \$8 by 2002. **Facebook** debuted at \$42 in May 2012 before trading down to less than \$18 per share by September of that year.

The reason these "super stocks" traded with so much volatility is twofold: (1) no one fully understood the economic model that these businesses were using in a new industry; and (2) short sellers and "big money" faded the stock price, so they could scare out nervous speculators, make money on their short position, while simultaneously engineering their own low entry price into the equity.

These same dynamics seem to be at work in Canopy Growth's case.

Marijuana and its derivative cannabinoid products have been known, anecdotally, to have medicinal powers. However, until quite recently, the medicinal effects have not been examined scientifically. That fact has changed; currently, millions of people use marijuana for what ails them. Evidently there is a business to be modeled, but the science to back it is still in development.

However, big pharma and other skeptics still abound. Unsurprisingly, major competitors and naysayers are the natural cheerleaders of any short-selling campaign, as are many profit-seeking day traders.

Short sellers always fade stocks where the fundamentals are outpaced by the company's high valuation. Canopy Growth makes no profit at this point, which gives the shorties plenty of ammunition to buttress their argument. Amazon never made any real profits for almost 20 years, while they spent their capital building their physical infrastructure. In the long run, this lack of profits didn't harm Amazon's equity price as patient investors began to understand the Amazon business model.

I would buy Canopy Growth at \$7, \$6, or even \$4, if the stock ever got that low again.

Canopy Growth is a leader in a new industry that is growing. I can't imagine that, in today's debt-strangled world, how cannabis as a medical product can fail. A new drug that is organic, effective for many health ailments, and costs significantly less than its competitors can't be stopped or even slowed by governments, regulators, or big pharma.

I can foresee a 50/50 chance that Canopy Growth will be taken over by a mainstream big pharma corporation within five years. I strongly believe that the take-out price would be well north of \$7 per share.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NASDAQ:AMZN (Amazon.com Inc.)
2. TSX:WEED (Canopy Growth)

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