



Why Canopy Growth Corp. Is Suddenly Less Volatile

Description

Canopy Growth Corp. (TSX:CGC) has now made it to the “big leagues.” In July of this year, the company was added to the Toronto Stock Exchange (TSX) and has experienced a significant run in its stock price. Over the past six months, the company’s stock price is up 220%, experiencing common jumps of over 10% a day. Over the past three weeks, however, the company’s stock has traded within a band of approximately \$2, fluctuating up and down in relatively small increments each day.

I’ll be taking a look at why the stock’s volatility over the past month appears to have decreased and what to expect moving forward.

Volatility linked to trading volume

In general, a company’s stock price tends to “find a level” much quicker and stay at a given level for longer as the volume of trading increases on said stock. In other words, if only a few market participants are trading a given stock, and trading in large chunks, the stock price will have a much greater likelihood of jumping around substantially. The bid-ask spread will widen, and things that are not normally seen with traditional blue-chip stocks will occur on a frequent basis (i.e., the aforementioned regular 10% daily jumps in stock price).

For Canopy Growth Corp., we can see that this was indeed the case for the stock up until recently. Trading volumes in September very rarely exceeded one million shares per day, while the average daily trading volume has since jumped to over seven million shares per day. This means that more investors are trading this stock more frequently. Increased eyeballs on a stock generally means better analysis of the underlying company, leading to a market consensus of what the company is worth.

Deviations from the given market consensus on the value of the company will happen, of course, due to news or announcements that were not foreseen by analysts and traders, but large rapid changes in Canopy Growth Corp.’s stock price are now much less likely to happen. Traders looking for large, quick increases in the value of their equity holdings in CGC may be disappointed moving forward.

Institutional investment

The second reason why the stock price will likely continue to moderate and experience reduced volatility in the long term is the increasing likelihood of substantial institutional investment.

While institutional ownership statistics are not currently available (either because the company has only recently been added to the TSX, or the level of institutional investment is marginal), we can assume that Canadian pension funds and insurance companies will start to look at Canopy Growth Corp. now that the company has passed the \$1 billion market capitalization threshold.

Many institutional investors are limited by mandates or covenants that restrict investments of corporations below a certain size. Presumably, Canopy Growth Corp. now has a wider potential shareholder base, meaning further increases in trading volumes (by increasingly more sophisticated traders).

Bottom line

Bask in the glory of Canopy Growth Corp.'s recent 220% six-month growth rate, but don't expect it to happen again.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:WEED (Canopy Growth)

Category

1. Investing

Tags

1. Editor's Choice

Date

2025/08/05

Date Created

2016/12/16

Author

chrismacdonald

default watermark

default watermark