



Canopy Growth Corp.: What to Do Now That the Hype Has Settled Down

Description

Investors in marijuana stocks have been pleasantly surprised by this year's run-up in stock valuations. Investors in **Canopy Growth Corp.** (TSX:CGC) have seen the company's stock price jump approximately 200% this year, trading in a massive 52-week range of \$2.40 to \$17.86. The stock price has settled down of late, as trading volume has increased and volatility has decreased on this now-billion-dollar company.

Canopy, previously listed on the Canadian Venture Exchange under stock symbol TWD (Tweed was the original company, later consolidated into Canopy), began trading publicly on the Toronto Stock Exchange in July amid great anticipation from investors and financial markets. Original investors in Tweed who'd bought stock at \$0.89 during a large private placement in March have experienced a more than 10 times return on their initial investment in less than a year.

Returns such as these spurred hype in the financial markets very rarely seen. A "green rush" of investors looking to capitalize on the new, hot commodity began with market sentiment approaching a mania of sorts. Investors simply needed to jump on the bandwagon and buy as much stock as possible on any marijuana company to cash in on the windfall.

One of the greatest investors of all time, Warren Buffett, has famously said on a number of occasions, "...be fearful when others are greedy, and be greedy when others are fearful." The irrational exuberance of the market relating to marijuana issues seems to be one of the most pungent recent examples of such a market scenario. Valuations for Canopy, along with most other marijuana companies, reached outrageous levels.

This seemingly outrageous or irrational exuberance by the markets may not have been entirely unexpected for a number of reasons.

First, a number of key metrics on the marijuana industry remain unknown. Little rigorous analysis has been done by third-party analysts with regards to the fundamentals of the marijuana business, partially because the industry is so new, and in part because the decriminalization of marijuana is ongoing in a number of key markets. The potential market size for marijuana products is not yet known, as is the

timing of when specific markets will open, or when new product classes will be given regulatory approval (extracts, beverages, etc.).

Second, the demand for marijuana stocks has largely been driven by retail investor demand (investors like you and me) rather than large institutional investors (think pension funds, investment banks, and insurance companies). The fact that “smart money” has not yet stepped in to the marijuana industry in full yet (many large investment firms may decide not to invest in such companies for a number of reasons) means that it will likely take a substantial amount of time before these companies can be accurately priced.

In the meantime, I take a very cautious approach toward Canopy and other marijuana stocks for the reasons Warren Buffett has preached as well as my personal risk-tolerance level. The future of stocks like Canopy remains very uncertain, and while it appears the market may be primed for investors willing to buy risk in this sector, I will continue to monitor from the sidelines.

Stay Foolish, my friends.

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