

Watching an Industry Move Forward

Description

Over the past several months, investors have been following the marijuana industry and the major players. Shares of **Canopy Growth Corp.** ([TSX:WEED](#)) and **Aphria Inc.** (TSXV:APH) have reaped large benefits as the acceptance of marijuana has become much more mainstream for the everyday person, and legalization is expected sometime within the next 12-24 months.

After an incredible run, shares of Canopy have found a trading range with both resistance and support since November. Trading at a price mostly between \$9 and \$13, shareholders may currently be in a holding pattern until either the capacity to produce is increased or until the sale of recreational marijuana becomes legal.

Although marijuana is clearly an emerging growth industry, it is important for investors to understand that the path to prosperity has many challenges. Shareholders looking for a high-probability event may be disappointed by the volatility in share prices of both Canopy and Aphria.

Currently, the beta of Canopy (according to Google Finance) is 9.35. The beta of Aphria is not available. As most are aware, the beta of the overall market sets the benchmark at one, and a beta of two translates to volatility twice that of the market. With a beta of more than nine times the market, these shares are not for the faint of heart.

Although the industry has started to show some clarity, the bottom line still remains: each of these two companies is operating on a negative cash flow basis over a full fiscal year. Until the customer acquisition costs are minimized or the cost of acquiring a customer declines significantly, the opportunity for profit will remain very difficult. Given the circumstances, the analysis of a fair value for these securities remains very difficult.

Let's look first at the simple moving average (SMA) of Aphria; the company has a market capitalization in excess of \$750 million and is still heading in the right direction for long investors; the share price is increasing in value over the 10-day SMA, higher than the 50-day SMA, which is, in turn, higher than the 200-day SMA. The momentum seems to be continuing nicely for shareholders.

Shares of Canopy, however, went a little too far, too fast. Shares have since begun to trade sideways over the past two months. Although things have moved in the right direction, Canopy — being the biggest Canadian marijuana producer with a market capitalization close to \$2 billion — has been the first pick for many investors.

Remembering what constitutes a solid long-term investment, shares of any company in the marijuana industry should still be viewed with caution. Although the industry offers excitement to investors, excitement doesn't always come in the form of profits, but sometime in the form of losses.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:WEED (Canopy Growth)

PARTNER-FEEDS

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