Canopy Growth Corp.: The Past and the Future

Description

Over the past six months, long investors in **Canopy Growth Corp.** (TSX:WEED) have been massive benefactors — if they entered the security early and stayed the course. As is often the case, investors asking “Am I too late?” often are.

Investors simply asking the question almost automatically have the answer: YES! You are too late.

As the market has witnessed, Canopy’s stock has risen substantially, leading the company to carry a beta in excess of 9.25, which simply cannot be maintained. Although volatility has been the friend to many long-term investors, the reality is, not everyone has been happy.

Sitting at a price close to $10 per share, the company has experienced an incredible run over the past 52 weeks from a low price of $2.40 to a high price in excess of $17.50. Although the high price was an intra-day number, there are still buyers who purchased shares at the elevated prices and have since seen their investments dwindle by approximately 40% in certain cases.

Although large gains and large losses are nothing out of the ordinary for flavor of the month growth companies, the reality is Canopy Growth Corp even after reporting positive earnings numbers is still cash flow negative due the the customer acquisition costs to bring in each new customer.

Given the lack of a track record to benchmark this investment against, airing on the side of caution has always been a good approach. Currently the stock has traded up significantly while the broad market has done nothing too special. And simultaneously, the news has moved away from being dominated by the potential legalization of marijuana to the presidential election and now the federal budget.

Assuming another round of news stories hit the wire, the stock may move significantly again, potentially increasing or decreasing depending on which direction the wind blows.

At current levels, investors have very little to go on relating to the fundamentals of the company. Looking at momentum, or moving averages, may be the best way to establish a baseline for the company.

By no means should investors ignore the fundamentals or company financials, but barring a clear way to benchmark the numbers, investors should use what is available. In this case, they should use the technical indicators.

The company had a massive explosion in the share price approximately five months ago, leading to simple moving averages (SMAs) which are now beginning to converge. Looking at the 10-day and 50-day SMAs, the company has begun to create a support level around the $10 mark, where the two moving averages are now crossing over each other.

Having moved up significantly several months ago, the longer-term SMAs will still be affected by the large increase in price, whereas the shorter-term SMA will only take into account the previous 10 days (as an example).

For investors looking at a longer time frame, taking longer SMAs into consideration is more important than shorter SMAs. But remember, for growth stories, caution is always the best approach!

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