

Should Investors Consider Canopy Growth Corp. at These Levels?

Description

After almost a year of proving people wrong, shares of **Canopy Growth Corp.** ([TSX:WEED](#)) are finally starting to come back to earth and trade at an appropriate level. Shares are currently trading a little shy of the \$8 mark, and there may be a major movement in the weeks ahead.

Since Canopy Growth Corp. has been traded on the stock exchange for many months now, investors have had the opportunity to purchase shares in the medical marijuana company on the basis that legalization will lead to large profits. The good news is that the Canadian government will legalize marijuana as early as next summer.

The industry and the largest competitor (Canopy Growth Corp.) were going to be the next big thing for investors, but things have cooled down gradually over the past few months. Just a few weeks ago, investors received confirmation.

MedReleaf Corp. (TSX:LEAF) hit the stock market for the first time through an initial public offering (IPO), and shares did not fare very well. Opening at a price near \$9.50 per share, the company began trading almost \$2 lower than the IPO price.

Although shares closed Friday at \$8.75, the story is still very clear: the euphoria and strong demand from retail investors has died out. Further, institutional investors have yet to find value at current levels.

In regards to the institutional investors, investing in a marijuana company (at least until the product becomes legal) is a little more challenging. We must not forget that institutional money is a collection of other people's money, and many institutional investors are not as forward thinking as our government. There is the potential for it to take much longer than anticipated for this money to find its way into the industry.

Let's look at the technical analysis of Canopy Growth Corp.; the 10-day simple moving average (SMA) has been steadily declining for more than three months, while the 50-day SMA has started to follow suit over the past two months.

Considering that the stock has fallen under the 10-day, 50-day, and 200-day SMAs, we can observe the 50-day SMA crossing over the 200-day SMA means that the stock's momentum is on a clear downward trend.

Although investors should never invest based on technical indicators alone, the reality remains that barring a clear financial picture (which, in the case of the marijuana industry, is opaque), investors have to consider all concrete information available to them.

With clear potential in the future, the risk/reward for the marijuana industry is very high, while the business model in a legalized marijuana environment is still unknown. As always, it is best to invest with caution and be ready to stay the course through good and bad.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:WEED (Canopy Growth)

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Date

2025/08/25

Date Created

2017/06/19

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