Young Investors: Should Canopy Growth Corp. Be in Your TFSA Retirement Portfolio?

Description

Young Canadians are searching for ways to set aside adequate cash to fund a comfortable retirement.

The issue has become more important in recent years, as contract work is increasingly common, and full-time positions don't always come with the same pension plans that are enjoyed by the boomers.

As a result, millennials are forced to look after their own retirement planning, and one strategy involves buying stocks inside a Tax-Free Savings Account (TFSA).

What's the appeal of the TFSA?

All gains generated inside the TFSA are yours to keep. That's right; the tax authorities don't take a share of the profits, which is an appealing situation for investors who own growth stocks with the hopes of realizing large increases in the stock price.

Let's take a look at **Canopy Growth Corp.** (TSX:WEED) to see if it is an attractive TFSA pick right now.

Market leader

Canopy has done a good job of positioning itself as the market leader in the Canadian medical marijuana sector. The firm made important acquisitions to consolidate the industry in the past couple of years and has entered strategic partnerships to boost production capacity and ensure adequate supply for its customers.

In addition, the company is preparing for international growth, with subsidiaries or joint ventures in countries such as Germany, Australia, Chile, and Brazil.

Canopy recently received a big vote of confidence from the market after it announced a $245 million investment from **Constellation Brands**, the owner of Corona.

Constellation is taking a 9.9% stake in Canopy with the objective of creating cannabis-infused beverages to sell in markets where recreational marijuana use is legal.

Canada's recreational market

The Canadian government plans to open a recreational marijuana market in the summer of 2018.

In the first half of this year, Canopy's stock fell, as investors wondered if the task was simply too large for regional and municipal governments across the country to get their ducks lined up in time to meet Ottawa's schedule.

In recent months, however, several provinces have announced their game plans for opening the market in their respective areas, and investors are feeling a bit more comfortable.

Canopy stands to benefit significantly from a recreational market that has an estimated value of at least $5 billion.

Should you buy?

Canopy's stock price has surged more than 100% since early September, pushing the company's market capitalization above $3.5 billion.

That's very expensive for a business that just reported quarterly revenue of $17.6 million and a quarterly net loss of $1.6 million.

Given the current valuation, investors must be convinced the Canadian recreational market will open as planned, and Canopy will capture a large enough piece of the market to justify the lofty market capitalization.

Management is doing all the right things at this point in the game, and Canopy could grow to become a global leader in this rapidly expanding industry, but the stock might be getting a bit ahead of itself right now.

I would keep any position small today, especially with funds being set aside for the golden years. There might be better opportunities in the market to start your TFSA retirement fund.

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