

The Big 4 Canadian Cannabis Producers May Be Ripe for a Very Sharp Pullback

Description

I'm one of the biggest bulls on Canadian cannabis producers and **Canopy Growth Corp.** ([TSX:WEED](#)) out there, but after the recent exponential breakout, I'm starting to become very skeptical over the sustainability of this rally.

My bullish calls over the past year

Back in October 2017, when Canopy was trading for \$11 and change, I made a bold call in saying that shares of [Canopy would hit \\$20 by year end](#). About a month later, Canopy did indeed break the \$20 mark, so I upped my price target to \$25 by year end, which was, again, too conservative of a year-end price target, believe it or not!

My original price target implied ~70% upside in less than a quarter, which was ridiculous and extremely far-fetched at the time. I admit I was extremely surprised when Canopy surpassed both price targets at a quicker rate than I expected. Although my reasoning behind why I thought shares would skyrocket was sound, I didn't think the euphoria would mount as quickly as it did.

Fast forward to today, and Canopy is trading at ~\$42, near my 2018 year-end price target of \$50, and we're not even halfway through January! Although I'm still bullish on the cannabis industry over the long term, I'm sticking with my original year-end price target of \$50, because I think cannabis stocks, Canopy, in particular, have surged way above reality, and a nasty pullback could be on the horizon.

Buying any of the big four cannabis producers at these levels is dangerous

In previous pieces, I've mentioned that positive developments would continue to fuel the cannabis rally into 2018, and I still think that's the case. However, I think cannabis stocks are overdue for a correction, since this rally isn't just being fueled by positive developments anymore; it's being fueled by pure euphoria. And as we know, after the euphoric highs comes a nasty hangover.

I believe the big four cannabis producers — Canopy, **Aurora Cannabis Inc.** ([TSX:ACB](#)), **MedReleaf Corp.** (TSX:LEAF), and **Aphria Inc.** (TSX:APH) — are in bubble territory. The opportunity is real, but I think we've reached a point where the hype has soared above and beyond what's realistic given the opportunity and potential risks that still exist.

For those who've been following my cannabis coverage last year, you may remember that I called for a [meltdown in Canopy](#) in the early part of last year. I noted that the tainted cannabis scandal would cause a crash, and that's indeed what happened, with Canopy leading the way in an industry-wide pullback. Canopy shed nearly ~40% of its value less than a year ago, but very few folks remember, since shares have taken off since then, and the ~40% correction in Canopy is barely even visible anymore when you look at the long-term chart.

Now is not a time to be complacent!

Since my summer [“buy” recommendation](#) on Aurora, shares have skyrocketed nearly 450% over a few months! If you took my advice and became greedy while others were fearful, you would have made a fortune.

You may have a five-bagger on your hands, but it’s important not to be complacent. The risks have been elevated at these levels, and the probability of a correction before legalization day is extremely high.

It’s never hurt anyone to take profits off the table. If you’ve already doubled up five times over, your best bet would be to turn your paper profits into real money before they’re surrendered once the next violent correction rears its ugly head. Even if you [play with the house’s money](#), you still stand to gain a tonne, but just make sure you’re not high on your own abilities; otherwise, you may not be able to sell should the next dip cause the lights to go out at your online brokerage again!

Cannabis stocks are experiencing massive volumes, and at these levels, I fear that a small negative development may be enough to push all cannabis stocks off the edge, resulting in a plunge well below 50%.

Bottom line

Cannabis stocks present a real opportunity for year-over-year triple-digit percentage gains; however, shares of your favourite pot stocks have shot up vertically!

Canopy and Aurora may be flirting with a \$10 billion market cap, but they’re trading like most violent penny stocks right now, so I’d be very careful, especially if you’ve been buying more on the way up!

Stay hungry. Stay Foolish.

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2. TSX:WEED (Canopy Growth)

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