



Should You Load Up on Canopy Growth Corp. and Aurora Cannabis Inc. on the Recent Dip?

Description

Many investors believe that Canada has a once-in-a-lifetime opportunity to capture the emerging cannabis market by storm, and given recent industry setbacks for our friends south of the border, I think shareholders of Canada's producers should be rejoicing, not panicking.

Jeff Sessions's war against cannabis, while perceived as a clear negative, is actually a gift to Canadian cannabis producers with little or no U.S. exposure. **Canopy Growth Corp.** ([TSX:WEED](#)) and **Aurora Cannabis Inc.** ([TSX:ACB](#)) are the [emerging leaders in the space](#), and when you consider U.S. firms won't have the opportunity to take off at a global scale, it certainly looks like Canadian producers have the opportunity of a lifetime to become the kings of a rapidly emerging market unlike anything we've seen before.

In time, as the industry becomes less taboo, and as more countries become open to the drug, I believe the U.S. will eventually announce nationwide legalization, but by then, Canadian producers will have a dominant position on the global market, and there won't be as much opportunity for American firms looking to capitalize on a green rush that won't have nearly as much hype as Canadian firms are having right now.

Is the recent dip in cannabis stocks a buying opportunity?

Unlike Bitcoin, the opportunity behind the hype is actually real; however, there are still major uncertainties, and given the recent exponential run-up, there's still a potential for a catastrophic collapse in pot stocks that could wipe out short-term traders who are thinking about making a quick buck.

I've noted countless times in the past that the main driver of cannabis stocks at these levels are positive developments, which will still be coming in at a fast and furious rate; however, I think the best developments have already happened, and the recent run-up has been fueled by nothing more than euphoria. Like cryptocurrencies, many speculators are storming into cannabis stocks based purely on hype, and I fear that the [crypto craze is exacerbating the FOMO](#) (fear of missing out) herd mentality.

Although I don't agree with the reasons behind the recent pullback in cannabis stocks, I wouldn't recommend buying shares on the dip, since I believe any perceived negative headline could be enough of a trigger to cause a violent correction in the shares of all cannabis stocks.

The probability of a meltdown is more likely than a “melt-up”

Yes, the opportunity behind cannabis is real, but I believe the hype has surpassed the realistic growth expectations set on all cannabis stocks. That means if you're a buyer at current levels, you'll be paying for many years of growth, and you're making many assumptions that you probably shouldn't be making. The legalization date may be postponed again; the “pot tax” may be larger than expected; and regulators may jump in and cause unforeseen consequences.

In addition, analyst projections for revenue are across the board. Analysts are expecting Canopy's revenue to be between \$185 and \$500 million. Nobody really knows what to expect before or after legalization day, so if you want to jump into pot stocks, I'd recommend patience, as a quarterly miss may be enough to weed out speculators and short-term thinkers. Everyone expects perfection right now, so if actual revenues were on the high end, the rally would be minuscule compared to the plunge that'd happen if revenues were on the mid to low end.

Bottom line

At these levels, you're investing alongside many gamblers, and the probability that you'll lose money over the next year is ridiculously high. Wait for a poor quarter or an inevitable negative development to pop the cannabis bubble, then be a buyer while everyone else is a seller — a strategy that has [paid off big-time in the past](#).

Don't give into FOMO. Another opportunity is very likely over the next year. Just be patient and be ready to pull the trigger during the next industry-wide hangover.

Stay hungry. Stay Foolish.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:ACB (Aurora Cannabis)
2. TSX:WEED (Canopy Growth)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing

Tags

1. Editor's Choice

Date

2025/08/20

Date Created

2018/01/16

Author

joefrenette

default watermark

default watermark