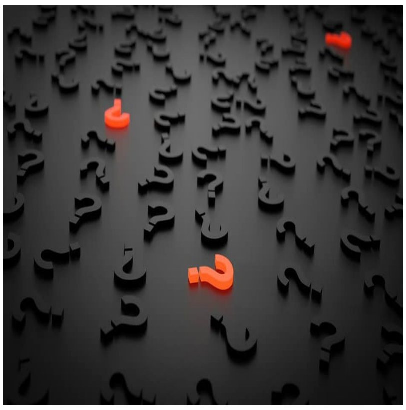

Marijuana Stocks: Is Canopy Growth Corp. a Buy After Plummeting 42% From Highs?

Description

In the world of marijuana stocks, investors have grown accustomed to a certain degree of volatility.

But with **Canopy Growth Corp.** (TSX:WEED) plummeting 42% to the current $24.54 from highs of $42 in early January, it looks like we have reached a new level of volatility.

Investors were more accustomed to volatility on the upside. That was the good side of volatility. But here we are, on the wrong side of volatility.

Here are the reasons why I would still stay on the sidelines and stay away from Canopy.

We have not seen capitulation. We are not even close, because the stock has only begun to fall, as reality sets in. Capitulation will happen when investors give up on making the easy money that has been made in recent history with marijuana stocks. This takes time. It will involve a shift into less risky investments, and more downside for Canopy. While the stock has fallen sharply at 91 times sales, the valuation in still absurdly high.

I always go back to the dot-com bubble when I think about marijuana stocks. Back in the dot-com craze, any company that said they were involved in the internet industry or even the biotech industry soared, regardless of whether the business models were sound, and regardless of whether they made money, had competitive advantage, etc…

It was pure speculation.

Back to the marijuana industry. We have been seeing similar trading patterns and similar investor attitudes as back then.

Aurora Cannabis Inc. (TSX:ACB), down 12% on Friday, also participated in this bubble-like mentality.

In the whole **Cannimed Therapeutics Inc.** (TSX:CMED) saga, the most recent turn of events was disappointing, as the business decision for Aurora to pay up for Cannimed was the wrong one.

Although the value of the deal will fluctuate as share prices fluctuate, Aurora effectively increased its offer price from the initial $24 per share back in November to $44 per share recently. That's almost double the initial offer and shows little discipline or patience.

The company is clearly motivated to increase its scale and presence at all costs, which is never a good thing.

This lack of discipline will cost shareholders. The company will pay for this inflated price tag with cash and the issuance of between 72 and 84 million of Aurora common shares. Given that the company currently has 452.7 million shares outstanding, this represents a 16-19% increase in shares outstanding.

In summary, marijuana stocks are coming back to reality.

I am still staying on the sidelines, because I am convinced that we will see a better entry point into these stocks. I will wait for business fundamentals and risks to jive with the price that the stocks are trading at, so it makes a compelling investment opportunity.

CATEGORY

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karenjennifer