



## Is Canopy Growth Corp. Stock an Opportunistic Buy on the Dip?

### Description

Marijuana stocks were the sexiest play on Bay Street just a few months ago, but today it appears the herd has moved away from the nascent cannabis industry as we steadily move closer to legalization day.

Earlier in the year, I warned investors to stay away from pot stocks until the next pullback. Cannabis stocks have boomed and busted many times now, and as we head into the summertime and nationwide legalization, I find it a dangerous move to be a buyer on the dip this time around versus previous years due the risks of a potential “sell the news” implosion in the months following legalization day.

While it may appear that you’re getting in early on a nascent industry with the capacity to deliver triple-digit growth numbers over the medium term, one must understand that valuations have ballooned up to unrealistic levels that rely on assumptions that any prudent investor wouldn’t be comfortable making.

Although buying the dip on **Canopy Growth Corp.** ([TSX:WEED](#)) stock may seem like a value-conscious decision to get in on an industry-leader before legalization, it’s worth remembering that the stocks of many pot stocks are still up +200% over the past year — and that includes the recent pullback!

### No clear trajectory for pot stocks

Analyst projections have been ridiculously broad when it comes to Canopy or its peers. With a haze of marijuana smoke clouding the near future of the industry, it’s no surprise as to why Canopy CEO Bruce Linton isn’t interested in providing further material for analysts to improve their forward-looking projections.

This goes to show that not even the top executives of pot stocks will know how many of the countless number of uncertain events will pan out. Thus, pot stocks really are a gamble, and they’ll continue to be until valuations fall back to realistic levels.

## The longer-term chart of any pot stock scares me

Looking at the longer-term chart, you'll see that the current dip is dwarfed by year-end parabolic spikes experienced in the latter part of 2016 and 2017. The chart definitely looks like a bubble, and although tremendous upside may still be possible, there are scenarios that could result in a surrendering of the last two years' worth of gains, which would imply downside that could exceed +80%.

Depending how future events pan out, cannabis stocks could double, triple, or quadruple from here, but they could also lose a majority of their value should investors discover that the post-legalization cannabis supply-shortage was exaggerated or if the [black market](#) may play a more prominent role in an era in which consumers can grow and distribute among themselves.

Further, that regulators are setting the stage for a 100% commoditized environment, cannabis producers will not be able to obtain a durable competitive advantage. This is particularly bad news for Canopy, which had the opportunity to become the [Marlboro of the cannabis industry](#) with its recreational brands and Snoop Dogg branded products.

Canopy's management team has continued to form promising partnerships across the globe, however, so it's not too far-fetched to think that Canopy's recreational brands will be able to spread its wings in select foreign markets as the taboo surrounding cannabis diminishes at the international level over the next few years. This potential long-term catalyst is simply not enough for a prudent investor to form a solid investment thesis at these levels, however. Paying up a massive premium for a commodity producer with no means of obtaining a moat just doesn't make sense to me.

### Bottom line

Buying the dip in pot stocks has been a profitable trading strategy in the past, but that doesn't mean this time will be the same. In fact, I'd advise those who have already made a great deal to take their original principal off the table should negative post-legalization developments actually end up panning out later this year.

For those comfortable with taking a gamble, Canopy Growth stock is the only pot stock I'd consider, as its strong brands may one day be enough to separate it from the crowd.

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joefrenette

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