

Why Canopy Growth Corp. (TSX:WEED) Isn't Immune From a Cannabis Collapse Despite Being Best-in-Breed

Description

With the nationwide legalization of cannabis just two weeks away, many investors who've remained on the sidelines may be wondering whether it's finally time to initiate a position before the big day comes and goes.

While October 17 may seem like some sort of "last call" for late investors to hop onboard the cannabis bandwagon before the gravy train leaves the station, the fact of the matter remains that every marijuana security has already been pumped up (and then some) over the past few years to account for the much-anticipated legalization day.

Sure, weed becomes legal from coast to coast on that magical day, and the 10/17 may become the new 4/20, but when it comes to pot stocks, I think the probability of a "sell the news" scenario is much more likely than any sort of explosive rally based solely on the passing of an arbitrary date.

Bubble or paradigm shift?

Canopy Growth ([TSX:WEED](#))(NYSE:CGC) stock has been on a tear following **Constellation Brands** ' second investment in the pot powerhouse. Over the last three years, the stock has skyrocketed 3,910%, which has undoubtedly been life-changing for investors who bought in back then.

It's important to realize, however, that three years before legalization day, there were no fundamentals, nor was there a game plan or a guarantee that nationwide legalization would actually come to fruition.

So, you had plumbers down the street cascading information about pot stocks to non-financially savvy people within their circles; the next thing you know, everybody was getting rich as cannabis became a headline story on every financial media outlet out there.

Most pundits would agree that the marijuana market is a bubble that will eventually burst. Pot investors argue that the nascent industry represents a paradigm shift and an opportunity of a lifetime to profit from a disruptive sector that could experience a prolonged period of quarter-over-quarter triple-digit growth numbers.

While the marijuana market opportunity is real, the secret is already out. And everybody, including non-financially savvy individuals and cryptocurrency speculators, has had more than enough opportunity to place a sizeable bet that's grown in conjunction with the momentum in the red-hot marijuana market.

The opportunity was real, but it's now overly crowded, and the euphoria of everyday speculators has gone entirely out of control such that the market has turned into a bubble.

Tilray's warning

When you have investors piling into **Tilray** ([NASDAQ:TLRY](#)) stock, a name that trades at 366 times book and 452 times sales, you've got an investment environment devoid of rules. Valuation goes out the window, and the only way to make a profit is from gauging the future psychology of greater fools who may act on their impulses.

With a market cap now just south of \$15 billion, [Tilray and Canopy](#) are worth more than many established Canadian companies including the iconic retailer **Canadian Tire**, which took many decades to build its business up, relying on actual sales growth, earnings growth, and cash flows generation. You know, fundamentals that justify a stock purchase?

Canopy CEO Bruce Linton has attempted to disassociate his firm from the madness at Tilray, but in the end, it'll be the broader basket of stocks that'll all go down with the ship. Tilray's recent bout of boom-and-bust volatility should serve as a dire warning to all cannabis investors that the ship just struck an iceberg.

Foolish takeaway

Canopy, I believe, is the [best overall cannabis player](#) in the world, but the euphoria has spiralled out of control such that a catastrophic implosion of any pot name could send shockwaves that will bring everything down, including Canopy, the lone pot stock that has a support level courtesy of Constellation Brands' investment cost basis.

Canopy's support level will be put to the test, so don't think for a moment that Constellation's entry price is an absolute bottom because if worse comes to worse, everybody, Constellation included, could see their investment go up in a cloud of cannabis smoke!

Stay hungry. Stay Foolish.

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