

Should Millennials Invest in Canopy Growth Corp (TSX:WEED)?

Description

For millennials, pot is king. Among members of the generation—which is not known for its love of investing—**Canopy Growth Corp** ([TSX:WEED](#))(NYSE:CGC) is a favoured stock. According to data from the trading app Robinhood—which is mostly used by millennials—Canopy is one of the [most popular stocks](#) on the platform.

Since I last covered Robinhood trading data, the number of users owning Canopy has increased by 179%, which means that millennials are getting even hungrier for the stock.

But should they be?

First, we need to understand *why* millennials are buying shares in Canopy.

Knowing your investments

If there is one absolute, unconditional rule of investing, it would have to be: *“buy what you know.”* There is nothing that makes for better investing decisions than understanding what you’re buying. You could have all the MBAs and accounting certifications in the world, but if you don’t know the underlying dynamics of the company you’re buying, you’re at a disadvantage.

This sentiment has been echoed by investing luminaries like Peter Lynch, Warren Buffett and Charlie Munger.

This principle might explain why millennials are buying up Canopy shares. Millennials are more likely to smoke pot than their Gen X and Baby Boomer counterparts. This could simply reflect millennials buying into a product they’re passionate about. However, it could also reflect an understanding of the cannabis industry.

Consumers, especially the more dedicated ones, usually have some understanding of the products they’re buying. This may mean that millennials are more attuned to market trends in the cannabis industry, including commodity prices and use trends.

Strong revenue growth

It’s all well and good to buy what you know. But at the end of the day, stock prices are driven by their fundamentals. So in order for millennials to be justified in buying Canopy shares, there needs to be some metric on the balance sheet or income statement that supports doing so.

Revenue could be one such metric. Canopy is growing its revenue at about [63% year-over-year](#). This isn’t the fastest revenue growth in the cannabis industry, but it’s light years ahead of the average for TSX-listed stocks.

A big question mark on earnings

Revenue is nothing if it you don't turn a profit on it. And here's where the big problem comes for Canopy investors: the company has been posting negative earnings year after year, and the loss just keeps getting bigger. In Q4 2018, the company posted a loss of about \$60 million, up from a \$12 million loss a year before. This means that the company's losses are actually growing faster than its revenue.

Granted, this is a company that's investing heavily in global expansion. Canopy is the world's lowest-cost pot producer, producing raw cannabis flower for about \$0.79 per gram, so it would probably be profitable if it weren't for large investment costs.

However, it remains to be seen whether the company's investments will pay off in the long run and generate larger profits than the company could get by staying lean.

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