



Canopy Growth Corp. (TSX:WEED) Has Big Downside in a Falling Market

Description

As the largest Canadian marijuana company, \$14.5 billion **Canopy Growth** ([TSX:WEED](#))(NYSE:CGC) has maintained its leadership position both in Canada and internationally.

And with this, Canopy Growth's stock price returns have continued to explode, and with a year-to-date return of 90%, and a one-year return of 354%, investors are left with the question, how much upside is left?

That is a question that many of us have gotten wrong in the past, as the market has maintained its optimism. And with recreational [marijuana legalization](#) looming, it would appear that the good times have just begun.

What we do know is that market and investor optimism remains high with respect to [marijuana stocks](#). But with the changing market sentiment, is this about to change as well? Will reality set in upon legalization? Will marijuana companies effectively execute their strategies? Where will pricing shake out?

Canopy Growth's deal with **Constellation Brands** is certainly a big vote of confidence for the marijuana industry. Constellation Brands currently has a 38% stake in Canopy Growth, and as such, they are the leaders in the edibles area, as we wait for the legalization of cannabis edibles.

As an indication of the risk that is still inherent in this business, though, I want to talk about the companies that are standing to the side — for now, at least.

Intact Financial, for example, is staying away from insuring the recreational cannabis market, as this big social change may present issues, expected and unexpected, that warrant some caution.

PepsiCo has also explicitly stated that it has no plans to invest in cannabis drinks, at least for now.

While marijuana legalization is fast approaching in Canada, it is still illegal at the federal level in the U.S. and edible marijuana-infused products will not be legal for at least another year, and it remains uncertain.

Furthermore, the black market may hang on to a significant share of sales, at least in the first year, as it has been estimated that the legal supply of cannabis will only be 30-60% of total demand in the first year of legalization — another reflection of the fact that these are early days, and there are big risks that come with this.

So, for long term investors, marijuana stocks will be an important part of their portfolios.

However, at this time, when there is so little visibility, so much speculation and euphoria, sky-high valuations and stock prices, I still think it is best to wait on the sidelines, ready to pull the trigger when valuations come down and/or visibility improves.

It is a decision to weigh downside risk as well as upside potential when making this investment decision.

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