3 Reasons Why Canopy Growth Corp (TSX:WEED) Is a Heck of a Strong Buy on This Dip

Description

The only thing uglier than the October market-wide sell-off is the post-legalization pot stock flop, a sell-the-news scenario that I've shed light on for well over a year prior to legalization day.

While it may seem tempting to take profits on **Canopy Growth** (TSX:WEED)(NYSE:CGC) or any other marijuana stock, I'd encourage investors to at least keep the house's money invested in Canopy and to nibble away at more shares should they continue to violently retreat below the $50 mark.

Now, I'm assuming that you're an experienced investor who understands the risks associated with being a marijuana investor. So, if you're a mere beginner who's looking to take a sizable position in a pot stock with money that's needed for an expense at some point over the next decade, I'd encourage you to check out my prior piece aimed at beginners, which will allow you to discover how suitable they are given your unique circumstances.

With that warning aside, let's get back to the recent pot sell-off and why I think Canopy is the only bet I'd recommend on the dip.

Aurora Cannabis looks like a bigger bargain with its massive decline, but given the risks and the underlying fundamentals, from a risk-adjusted standpoint, Canopy remains the marijuana king that should be worthy of your investment dollars. Here are three reasons why:

Canopy has really deep pockets

First, and most importantly, Canopy has the prettiest balance sheet after **Constellation Brands's** (NYSE:STZ) second helping to its shares. In an industry with "funny accounting" and severe shareholder dilution, having liquidity has the potential to separate the kings from the peasants, especially should the cannabis market continue to tumble further into the abyss.

Canopy's enhanced financial flexibility will allow it to take advantage of timely contingent opportunities that may be on the horizon, and, best of all, the company won't be on the verge of insolvency as many smaller, less financially healthy pot producers are.

Moreover, Canopy's favourable financial positioning (and a spin-off of **Canopy Rivers**) also rules out the potential for shareholder dilution, so Canopy shares look like the most investable within the industry.

Management is impeccable

Canopy CEO Bruce Linton isn't just a funny, informative guy that makes frequent appearances in the financial media. He's an opportunistic and calculated man with a very long-term mindset, a trait which everybody involved in the world of marijuana seems to lack.

Through various applaud-worthy deals, Canopy has solidified its place in the international weed market. Combine this with Canopy's top-notch branding prowess and its industry-leading talents, and it's no longer a mystery as to why Canopy is the only marijuana player with a dance partner.

Constellation Brands's purchase price is a meaningful support level

Constellation Brands is a heck of a company. The US$40 billion alcohol giant doesn't speculate to make a quick buck. It's all about the long game as well, and how it can hedge itself from one of the most disruptive commodities to have prohibition lifted.

The alcohol giant's stock pulled back after it announced its Canopy investments, as investors in Constellation are just that: investors, not speculators willing to bet on high-flying pot stocks. While the price may be questionable, one thing is certain: Constellation's management team has been working very closely with Canopy for many months prior to any deal being inked.

Moreover, while valuation was a huge question mark, Constellation did the best it could by initiating a position at a time of "local undervaluation," a time when the pot trade went quiet after selling off.

Foolish takeaway

Marijuana stocks are speculative, but if the price is right, I think Canopy's may soon hover in the grey area between speculation and investment. The paradigm shift is real when it comes to Canopy, but that's not to rule out another steep crash to $30.

Over a longer-term perspective, however, any excess premium paid in the near-term will be peanuts in 10, 20, or 30 years down the road when cannabis-infused beverages begin to take up spots on the shelves where alcoholic drinks used to be.

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