



## TSX Selloff Continues As Canopy Growth Corp (TSX:WEED) Stock Gets Crushed

### Description

As the TSX selloff rages on, one stock is emerging as a major casualty.

**Canopy Growth Corp** ([TSX:WEED](#))(NYSE:CGC).

The stock was first hit after long-term investors took profits in October, but the losses spiralled out of control when a broader TSX correction hit cannabis stocks especially hard. From October 15 to October 29, Canopy shares fell 41%.

That raises the question: why?

With legalization almost certain to increase the company's revenues, there doesn't seem to be any bad news on the horizon. In a previous article, I stated (in agreement with Bruce Linton) that profit taking by long-term holders was the most likely culprit for the slide. But with the downtrend continuing, a more complete explanation is needed. It helps to start by looking at why Canopy rallied to \$73 (its October high) in the first place.

### An unprecedented (and irrational?) rally

The late summer/fall rally that brought Canopy into upper double-digit prices was initiated by the **Constellation Brands Inc** ([NYSE:STZ](#)) [acquisition](#). Through this acquisition, Constellation upped its stake in Canopy to almost 38%, after acquiring roughly 9% earlier in the year. This ignited a major Canopy rally ahead of legalization that swept almost all other cannabis stocks up with it.

Is it possible that the post-acquisition rally was irrational?

Very much so. The mere fact of an acquisition does not a great stock make. Sure, Constellation's buyout brought \$5 billion into Canopy's balance sheet. But it also diluted equity. Until we see positive signs that Canopy is using the \$5 billion to enrich shareholders, the effects of cash influx and equity dilution cancel out. And the \$48 per share that Constellation paid for its stake is no reason for those same shares to skyrocket to \$73.

## Canopy not alone

It should be noted that Canopy is not the only cannabis stock falling into the abyss right now. Most of its peers on the TSX are also faring badly, with **Aurora Cannabis Inc** down almost 50%. However, Canopy's decline can be considered a bellwether for the industry, as other cannabis stocks tend to follow suit when Canopy rises or falls. This is most likely due to Canopy's status as the largest cannabis stock by market cap (at least on the TSX).

## Market jitters worldwide

A final thing to note about both Canopy and its peers is that their present decline is not an isolated event. It is occurring in tandem with broader selloffs in the TSX and American indices. Not only are people selling cannabis shares specifically, but cannabis shares are also getting caught in the dragnet of people exiting the market altogether.

Viewed in this light, the cannabis carnage we're currently witnessing may not be as severe as it seems. For the time being, though, I reiterate the claim I've been making all year: don't buy any of these stocks until we see a consistent [pattern of profitability](#) start to emerge.

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## Author

andrewbutton

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