The Best Way to Play Canopy Growth Corp. (TSX:WEED) Stock

Description

Canopy Growth (TSX:WEED)(NYSE:CGC) delivered Q2 2019 earnings November 14. It was the company's first report post-legalization. The results weren't very good.

Now, what is there to do?

Well, for those that are big believers in Canopy's business model — for the record, I don't own Canopy stock, but think its tie-up with **Constellation Brands** makes it a winner in the long term — all you can do is grin and bear it. As I said in early October, there's going to be lots of volatility over the next year when it comes to cannabis stocks, as some companies gain ground and others fall back.

Just today, I read an article about how U.S. cannabis companies are overtaking their Canadian counterparts, although I'll darned if I can remember where I saw it. The point is that investors have no idea if Canopy will be a player three to five years from now.

However, it's hard to imagine Bruce Linton going so severely off course after Constellation's huge investment, but when you only have $23 million in revenue in a quarter and an adjusted EBITDA loss two-and-a-half times that, anything is possible.

The best way to play Canopy Growth stock

Okay, so you're in it for the long haul — not six months, but six years. You'll ignore near-term volatility, letting the industry mature before your very eyes. Perhaps you should even throw your shares in a drawer.

Whatever the size of the position you ultimately want to take — 5% of your portfolio, 10%, or even 20%? — the amount of dry powder you're able to bring to the situation will dictate your level of success.

Here's a quick example.

Let's say you bought 100 shares of WEED at the end of 2017. You would have paid around $29 for an initial investment of $2,900.

Let’s also say you committed to buy 100 shares every time in 2018 WEED stock corrected by 10% or more in a calendar week. I’ve looked over the data and found a total of six occasions on which Canopy’s stock dropped by 10% or more in a single week.

The most significant drop was 31% in late January when it fell from $35 to $24. Five more declines occurred in 2018 in March, June, July, October, and November after earnings. The average drop for all six was 17.7%.

Using the closing prices at the end of the weeks in question, you would have paid out a total of $24,684 to purchase 700 shares for an average price of $35.26, a return of 32% on your investment.

Now, I have no idea if you have the kind of funds to pull this off, but I would bet dollars to donuts that if you do this throughout 2019, you’ll emerge victorious with a very attractive return on your investment.

Use the volatility to your advantage

Of course, to make the play I’ve suggested above requires that you have a strong belief in Canopy Growth stock, much like my Foolish colleague Joey Frenette. He believes that WEED will hit $100 by the end of this year.

A double in six weeks?

I suppose it’s possible. However, it’s equally likely that it could drop 31% over the last month and a half of the year, like it did in January.

I’ve found that predicting stock prices within a certain period never goes well. What I do know is that every time Canopy’s stock price has had a 10% correction in 2018, it’s always rebounded relatively quickly.

Unless Canopy turns into a dud in 2019, using Canopy’s volatility to your advantage should reward you handsomely.

But you’ve got to believe.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NASDAQ:CGC (Canopy Growth)
2. TSX:WEED (Canopy Growth)

PARTNER-FEEDS

1. Msn
2. Newscred

3. Sharewise
4. Yahoo CA

Category

1. Investing

Date
2025/07/02
Date Created
2018/11/18
Author
washworth