

Time to Take a Cool-Headed Look at the Cannabis Sector

Description

When Canada announced its intent follow-through on legalization, a flurry of new investment emerged literally overnight. Some companies, such as **Canopy Growth Corp.** ([TSX:WEED](#))(NYSE:CGC) took an aggressive stance towards growth and entered the market and expanded rapidly to become market leaders by size and geographic footprint.

Other companies took a more domestic-focused route that included diversifying into a series of products.

Both approaches have been successful in capturing the imagination of investors, as witnessed by the incredible growth achieved by Canopy over the course of the past year. That growth did, however, taper off to a trickle and we even saw a retreat in stock prices over the course of the past month, begging the question of whether investors should still consider an investment.

Let's try to answer that question.

Does Canopy still have potential or is it blowing smoke?

Canopy had the benefit of being a first-time mover in a lucrative new segment of the economy, which was — and still is — huge. By some accounts, pundits have often compared the investment opportunity posed to the cannabis sector as the equivalent of investing in liquor companies at the end of prohibition.

Similar to prohibition, a shortage of good after the initial rollout of legalization, coupled with an end to the emotional ramp-up and weaker than expected results have resulted in the stock, and, by extension, just about all of the sector dropping over the course of the past few weeks. Adding to those woes is the fact that the shortages that we've seen in the marketplace are likely to persist for the next few months.

In the case of those weaker results, in the most recent quarter Canopy reported

Here's the thing that really gets me: on the surface, Canopy appears to be the perfect investment for those that are looking to take a small position in the company. Canopy has supply agreements with half the provinces, a growing distribution network that has key access to several foreign markets, and continues to pursue expansion opportunities wherever they may materialize, such as the recently announced acquisition of hemp-focused research company, ebbu inc.

Then there's the agreement and investment infusion provided to Canopy on behalf of a major beverage company that could see a line of cannabis-infused beverages hit the shelves within a few years.

All of this just screams long-term potential, and for that reason, investors should contemplate a small investment in the company. The only remaining question to answer is whether now is the time to buy

Canopy or not.

Canopy's stock price has bounced up and down for much of the past few months, but overall, the stock outperformed the market in general, with impressive gains of 38% over the course of the past year. Back in August, the stock started accelerating towards new levels, and by September, Canopy saw a near 100% return for the year. Much of those gains have subsided since then, but the long-term opportunity posed by the company has not.

In my opinion, Canopy remains a great [long-term investment](#) option, but the point I can't stress enough is "long-term." The stock is still volatile to a new market segment and will likely see gains and losses over the shorter term as the legalization market matures, supply shortages are met and expansion opportunities are acted on.

Buy it. [Hold it.](#)

CATEGORY

1. Investing

TICKERS GLOBAL

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

PARTNER-FEEDS

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