



Don't Sell Your Cannabis Investment Just Yet...

Description

If there was one area of the economy that was more turbulent than any other during 2018, it would be the newly emerged cannabis sector. With the date for legalization set, a flurry of companies across a wide segment all sought to take a piece of the new prized addition to the market.

Canopy Growth ([TSX:WEED](#))(NYSE:CGC) earned its first-mover advantage over its peers, having been the first traded company on the market, and Canopy lived up to its expectations, at least for a while.

In recent weeks, however, the cannabis market has followed the rest of the market with its volatile shift, erasing many of the gains made during 2018. Incredibly, at time of writing, Canopy is just 8% up for the year, which is insane considering that less than two months ago the stock was up over 100% year to date.

Is the legalization high over now?

Part of Canopy's rapid ascension in stock price that gained steam over the summer was the promise of legalization itself. You can call it emotional buying, the bandwagon effect, or a dozen other names — the fact remains that Canopy is the largest player in the market and a viable investment option for long-term investors. It also goes without saying that some of the retreat in the stock price that we've seen in recent weeks could be attributed to some profit taking by investors.

So, that raises the question, whether Canopy and, by extension, the entire cannabis sector are still worthy of an investment.

My take on this emerging market hasn't changed; there's a massive opportunity for both primary and complementary products in the new segment, for which Canopy is well positioned, and I can point to several specific points that investors should watch closely during the next year.

The first point to mention is something referred to the 2018 farm bill. The bill, which was signed by President Trump this month, legalizes hemp production across the U.S.

Hemp has a significantly lower level of the THC compound than marijuana. The bill also loosened some of the restrictions on cannabis, opening the path for Canopy and others to enter the market. Canopy CEO Bruce Linton noted last week in a statement that Canopy will “participate in the American market” now that it is legally able to do so.

While investors shouldn’t expect this to be another rocket that sends the stock into stratosphere, there is potential from this announcement, and Canopy already has experience in moving into new markets.

I would be remiss if I didn’t also point out that despite the roller-coaster ride the stock price has taken over the past year, Canopy’s market cap, product line, sales, the scope of operations, and even footprint internationally have all grown considerably. To put it another way, let’s ignore the share price for the moment and focus on the big picture — this is a new product in a new segment of the market that isn’t even legal in many countries around the world. Patience is key.

Finally, there’s Canopy’s relationship with **Constellation Brands**. The multi-billion-dollar investment by the beverage company hasn’t provided anything for investors to date, but there’s no reason to discount or even dismiss what could arise from that relationship. The move by Constellation also pushed Canopy’s primary competitor in Canada to forge its own agreement with another beverage company.

Should you buy?

Just as the product itself is not for everyone, Canopy as an investment isn’t either. Canopy and the entire [cannabis market](#) remain highly volatile, but given the retreat in recent weeks, investors looking to jump in now are now worse off than a prospective investor that jumped in earlier this year. If you can take the risk, Canopy could provide investors with [great long-term growth](#) provided you remain focused on the long term.

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