Marijuana Investors: Did You Just Miss Out on The Buying Opportunity of the Year?

Description

2019 has been quite the year for Canada's leading marijuana stocks. So far, at least. There's still a lot of time left.

Canopy Growth Corp (TSX:WEED)(NYSE:CGC) is a prime example. Shares ended 2018 on a severe down note, falling from a high of $76 each all the way down to $36. That's more than a 50% drop from when marijuana was officially legalized to the end of the year, the exact time Canopy Growth shares were expected to soar into the stratosphere.

But that's nothing but a distant memory, at least for folks who held on. Canopy shares are up more than 64% thus far in 2019, and that's even after a bit of a pullback in the last week.

This move has helped win back investors who dumped the sector in 2018. But perhaps those investors have missed the boat. Here's why I think buying Canopy Growth shares today might end in disappointment.

Nothing has really changed

Despite shares rocketing up more than 60%, there's little difference in Canopy Growth a month and a half ago versus today.

The company still has the same sort of growth potential, which not only includes Canada, but also other nations like Germany and Australia. Canopy seeks to become a worldwide pot powerhouse, and although it has a long way to go, the company is off to a good start.

It did announce it received a hemp license in New York State, and will make a $100-$150 million investment to grow hemp there, which immediately makes it a big player in a market that experts estimate will be worth $1 billion. But this isn't really new information: Canopy has been vocal about expanding into the hemp market for at least a couple of years now and announced it would be doing just that once the 2018 Farm Bill legalizing hemp was passed.

The company's biggest challenge — expanding operations in Canada to meet what seems like insatiable demand — is still an issue. Analysts now believe that Canada's pot shortage is a problem that will take years, rather than just months, to solve. In response, many provinces either limited how often stores can stay open (Quebec) or restricted the number of entrants into the market (Alberta and Ontario).

Has anything really changed on this front? Not that I can see.

Investor sentiment

The only real difference in Canopy Growth over the last six weeks is how investors feel about the company. They went from dumping everything marijuana-related to gobbling up shares even as they were skyrocketing.

This is the constant danger in investing in stocks in general, but especially marijuana names. A blue-chip stock might move 20% up or down based on short-term investor sentiment. Canopy Growth's moves are double or even triple that much. It's great news when the stock is going up, but devastating to investors when going down.

It's even more puzzling when the move isn't really met with any new news. Canopy is largely the same company as six weeks ago, but shares are 64% higher. You'd be forgiven if you're left scratching your head after that move.

This makes the sector, and Canopy Growth in potential, especially hard to invest in. Normally, companies move up and down based on fundamentals. In the world of marijuana stocks, sentiment matters far more. That might make for fun trading, but it's a pretty tough environment for investors.

The bottom line

It's virtually impossible to value Canopy Growth Corp on any traditional value metrics. The stock is almost off the charts when valued by price-to-sales or price-to-earnings ratios. Investors use potential and hype as their two main valuation tools.

After such a big run-up, I can picture shares either trading in a range or going back downwards, especially after short-term investors take their profit.

Although anything is possible, especially in that sector, my opinion is that pot investors have largely missed the boat. They missed the big buying opportunity, especially with Canopy Growth.

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