Canopy Growth Corp (TSX:WEED) at $55: Should Investors Buy the Dip?

Description

Canopy Growth Corp (TSX:WEED)(NYSE:CGC) has been falling recently, well below the $60 mark and the last time it closed below $56 was back in January. The big question for investors is whether this is the start of a bigger correction taking place, or if it's likely that we'll see the stock rebound from where it is today.

The challenge with many marijuana stocks, however, is that they all trade at significant multiples and trying to gauge where their price should be is difficult at best. With Canopy Growth struggling to post a consistent profit and trading at a price-to-sales ratio of over 100, it's easy to say that it's an expensive buy and end the discussion right there. The problem is that marijuana stocks have not followed that pattern and it almost puts them into a unique category.

Given the impressive growth we've seen from some marijuana stocks lately, it's not something that's comparable to even a big growth stock like **Amazon**, which will only see its sales rise at a fraction of what Canopy Growth and its peers are able to grow at. And so using conventional approaches to very unconventional stocks, especially as the industry has just launched, makes it almost pointless to do so. Investors have to almost look at marijuana stocks the way they might IPOs, where there's a lot of opportunity and risk.

In Canopy Growth's case, the company is definitively the market leader. It's a name that has become synonymous with the industry and the brand has a lot of value today. While I won't say that Canopy Growth is a cheap buy, because it's hard to justify that given it has a market cap of around $20 billion, I will say that I don't expect that we'll see a big correction happen just yet. And this latest decline isn't specific to Canopy Growth itself, but the markets as a whole, as many stocks have been down recently.

Canopy Growth's share price is also approaching oversold territory as it has a **Relative Strength Index** (RSI) below 40. If it hits 30, that's a sign that the selling we've seen has been excessive and that it might be due for a reversal. However, if you're waiting for it to get to that level, you might be holding your breath for a long time, as that's a very rare occurrence for the stock.

The last time that it was below an RSI of 40 was back at the end of last year, when the stock was trading below $40 a share. Since then, the stock has obviously climbed to much greater heights. That said, I don't see Canopy Growth rising another +50% the way it did during that time, but I wouldn't be surprised if it found its way back up to over $60.

For those reasons, I wouldn't be surprised to see the stock start to rally sometime soon.

Bottom line

With the markets not being particularly strong right now, I believe what's happening to Canopy Growth's stock is more related to the market rather than the individual stock itself, and that's why I wouldn't be surprised it rebound. There's still a lot of growth happening in the cannabis industry and a lot of excitement for us to be expecting a big correction to be taking place just yet.

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