



Canopy Growth (TSX:WEED): Is the Next Stop for This Marijuana Stock \$30?

Description

It has been quite a slippery slope for **Canopy Growth** ([TSX:WEED](#))(NYSE:CGC) stock since late April. After hitting a record high that month, its shares have fallen more than 35% since then.

After a powerful rally during the early part of the year, the sell-off in marijuana sector has been drastic since April. **Horizon** Marijuana Life Sciences Index, for example, has fallen more than 25% since April 29.

So, what's causing a sudden change in heart on the part of investors who have suddenly started to hate these market darlings? In my view, there are two main reasons behind the current sell-off.

First, there is still a considerable amount of uncertainty about the future [outlook of marijuana producers](#). Investors were certainly not happy when Canopy Growth lost \$323 million in the quarter ended March 31. This big loss prompted the company's biggest shareholder, **Constellation Brands**, which owns about 36% of Canopy and holds a majority of its board seats, to ask the company's CEO to leave.

After Canopy's disappointing earnings, investors started to realize that they are probably expecting too much from these nascent players who are still working to put their act together. That collective thinking led to revaluation of weed stocks, thus prompting this massive sell-off.

Back-to-back setbacks

The other reason that made many investors think about their marijuana holdings after the Canadian regulator found out this month that **CannTrust Holdings** grew pot in unlicensed rooms and provided "false and misleading" information to inspectors.

As its share plunged, [CannTrust halted all sales](#) and shipments of its products, and the Canadian government may suspend or even cancel its licence in response. The breach led to the firing of his CEO and erased almost \$500 million in market value.

These two back-to-back setbacks have shattered investor confidence in the Canadian marijuana space, especially when achieving profitability is uncertain and many players are struggling to show that they have overcome the teething problems.

Bottom line

I think this bearish spell will continue for weed stocks in the third quarter, as investors re-evaluate their risk and book profits after a massive rally of this year. If you plan to take an advantage of these beaten-down prices, stick with the big names such as Canopy Growth. The stock will come back sooner or later.

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