
# How to Lose $9,000 in the Stock Market – and Win It All Back

## Description

This morning we will see how **TSX** investors reacted to the earnings of the popular cannabis stock, **Canopy Growth** (TSX:WEED)(NYSE:CGC)**.** Be warned, however: if cross-listed NYSE stocks are predictors, then Canopy Growth investors should expect a 7% plummet in market value.



**NYSE** shareholders didn't hold back their frustration after Canopy's after-hours earnings call. They all put in sell orders, sending the stock down nearly $2.30 per share.

During the sell-off, investors who purchased at the 52-week high of $59.25 cried and whimpered a little at their $28 loss per share.

## Should you sell losing stocks? Absolutely…

All stock traders have made bad investments at one time or another. And they all wrestle with the decision to sell and accept the capital loss – or stay in the game hoping for another bubble. The answer is to sell because time and opportunity cost are the real enemy when an investment goes south.

The only way an investor can win back the cash is to admit failure and find a better investment elsewhere. Insurance or banking stocks are my number one pick at the moment. They offer 5% dividends and the comfort of successful reputations.

I don't recommend it, but if you must speculate on a non-dividend issuing stock with the volatility of dry ice, always sell a call option to hedge your bet. Plan to hold the position until expiration and I promise you that the odds of closing with a net profit are in your favour.

Whatever you do, however, don't gamble without another option up your sleeve in case you get into a jam.

## Canopy was the golden child of pot legalization — what happened?

More than anything, the market free-fall was merely short-term investors cashing out a little late on some speculative bets. Also, as far as cannabis goes, the industry has a better alternative offering a 6% dividend yield: **Alcanna**.

Moreover, Canopy got into some debt trying to earn a living. Meanwhile, its parent company, Constellation, loves the idea of owning the newly legal industry but doesn't want to take responsibility for its financials.

In fact, Constellation recently fired Canopy founder Bruce Linton due to disappointing margins and profligate spending.

In truth, Canopy is actually doing fairly well. For the quarter ending June 30, the company announced an increase in adjusted earnings of more than $5 million over the previous three months.

Unlike the sad decline in revenue reported from **Neptune Wellness** before market opened on Wednesday, Canopy increased international cannabis revenue by 209% versus Q1 2019. The company also increased its dried, adult-use cannabis sales by almost 100%.



This is all great news, but it wasn't enough. It comes as no surprise to those watching the cannabis market that Canopy Growth has what it takes to compete in the newly legal industry. The question is, what kind of returns will the stock give shareholders?

The honest answer to that question is none.

## Canopy Growth is correcting downward – without dividend compensation

That's right – you read correctly. The stock doesn't offer a dividend, and negative free cash flows have almost reached $1 billion. Canopy is highly leveraged from aggressive investments, and parent company **Constellation Brands**, would like to start seeing their personal stack of green stuff – in the bank.

This all means that investors can only see returns by selling shares at a capital gain. Without dividends, stocks provide no other realized earnings.

More than likely, Canopy Growth and Constellation Brands will pleasantly allow the share price to fall and even profit off the decline themselves.

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