Is Canopy Growth (TSX:WEED) Struggling to Hold Investors' Interest?

Description

It seems **Aphria**'s recent big win wasn't quite enough to keep the bears from the door. Cannabis stocks are taking a walloping as a fresh round of earnings misses come together with the increasing possibility of a North American recession.

This combination of factors is underlining the decreasing appetite for risk currently affecting investors, with all but the most bullish on the green stuff sticking to their long positions.

Perhaps the most accurate indicator that a downturn is imminent is the sudden inversion of the two-year/10-year Treasury yield curve, which was mirrored by the U.K.'s own inversion of the same indicator.

While the U.S. version has since righted itself, other signs of a big correction in the works remain, with the prospect of a chronic slowdown in economic growth beginning to look like a near-future reality.

A mixed quarter, but an overall miss

Profitability is king at the moment in an industry that has been raked over the coals by investors lately, with few exceptions. While **Canopy Growth** (TSX:WEED)(NYSE:CGC) had a few things to celebrate about in its most recent quarterly report, the fact the company is still not making a profit is what really struck investors where it hurt.

Shareholders responded the way they been lately with cannabis companies that fall out of favour, and the stock dropped 11%.

It doesn't help that investors have been giving Canopy Growth some side-eye since it lost its CEO. Management changes are never a good thing in a spooked market, and safer options – as well as ones with better short-term upside possibilities – have become more appealing.

In part this has been due to a more focused approach, such as a focus on CBD, or on carving out an online niche, rather than Canopy Growth's diffuse diversifying.

Having a diverse spread of assets isn't always a good thing

The problem with going after all available markets at once is that a company forgoes profit for range. The "cash versus conquer" conundrum is as old as business development itself, and of course, the smart way around the problem is to balance both necessities.

Granted, having one's fingers in as many pies as possible might mean that a company benefits from the success of one segment of an industry – but if the entire industry is limited in scope, having only a taste of the pie won't satisfy stakeholders.

This is the problem with **Tilray** at the moment. The **NASDAQ**-listed pot stock tanked on missed expectations – hard, and because that miss was so wide. The issue is familiar: Investors are really starting to lose patience with unprofitable companies, and simply don't seem to place nearly as much importance in how many territories, deals, or gimmicky products a cannabis company can conjure up as the weed growers think they do.

The bottom line

With a possible market correction on the way, mixed quarterly reports are just about the last thing that companies like Canopy Growth need right now.

Though the stock certainly has its fans, with a long position being among the favoured investment strategies, newcomers to the cannabis space might be wondering whether they would be better off to have a speculative flutter on a smaller, more focused, and more maneuverable company.

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