



## TFSA Investors: After Dropping Almost 50%, Is Canopy Growth (TSX:WEED) Stock Finally a Good Buy?

### Description

One year after legalization, **Canopy Growth** ([TSX:WEED](#))(NYSE:CGC) still has got a lot of work to do to grow into its valuation and to secure its spot in the rapidly growing marijuana industry. The last year has not been good to cannabis stocks, as the bubble has finally burst, leaving shareholders reeling and potential investors spooked.

Naturally, a 50% drop in share price leaves us TFSA investors [pondering whether new valuations are attractive](#) enough to warrant establishing a position in this exciting stock and industry. To determine this, let's take a look at what has changed besides the stock's valuation and what this means for investors considering establishing a position.

### Canopy Growth stock is still a speculative investment

Regardless of the high hopes for the cannabis industry, the fact remains that this space is experiencing many changes, the situation is very fluid, and visibility is limited beyond saying that this industry is one with high growth and great potential. How everything shakes up is less certain.

Canopy Growth has seen many changes in a short period of time, the latest big one being the ousting of CEO Bruce Linton by the board, which is controlled by **Constellation Brands** executives. So, here we are, with an interim replacement and the struggle to find the right permanent replacement.

The state of the industry is also highly uncertain, with the black market still thriving. A study released recently said that approximately 59% of marijuana users bought it illegally despite legalization, as the black market weed remains cheaper than legal weed.

### Net losses are still high

As seen in the company's latest quarterly result, [net losses are still high](#). Further to this, company estimates as to when these losses will abate and the company will finally turn a profit are not so

optimistic.

Net revenue increased a very strong 249% year over year, but the bottom line was once again disastrous, with a net loss of \$1.28 billion and a 30% reduction in cash and cash equivalents to \$3.1 billion. With these continued losses and necessary investments to support growth, Canopy Growth management recently admitted it will be another three to five years before the company is profitable.

So, with this, we can see that things will continue to be very volatile and risky in the short term.

## Now for the rules of speculation

If, after all this, you are still inclined to buy Canopy Growth stock, we can at least say that today is a better time for you to do this than recent history. While 2019 estimates are still being reduced and the company will not turn a profit any time soon, at least the stock's lofty valuation has come down a bit.

Now, remember the rules of speculation. Do not invest money that you can't afford to lose. Invest only a small percentage of your total portfolio in speculative investments (do not exceed 10%). And once you've decided to invest, invest for the long term.

## Foolish bottom line

Despite losing 50% of its value in the last year or so, Canopy Growth stock is still not for the faint of heart. One way to try to participate in this emerging, booming industry is to allocate a small portion of your TFSA to the group, which can include Canopy Growth stock as well as a couple of other cannabis stocks in order to diversify company-specific risk.

At the end of the day, high expectations, lofty valuations, and the lack of visibility in the cannabis industry have taken their toll. While we have not seen true "capitulation," we are at least closer.

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