Should You Buy Canopy Growth (TSX:WEED) Stock Right Now?

Description

Cannabis stock prices are down significantly from their spring highs, and investors are wondering if this is a good opportunity to add marijuana stocks to their portfolios.

Let's take a look at **Canopy Growth** (TSX:WEED)(NYSE:CGC) to see if it deserves to be on your buy list today.

Volatility

Canopy Growth traded for close to $70 per share in late April. The stock then went into a decline that took it all the way down to $31 in late August. A rally to start September has lifted the stock back up to $38, where it currently trades at the time of writing.

The volatility isn't new, and investors should expect big moves in either direction to continue as the marijuana industry evolves.

The drop from the spring top was partly due to a broad-based sell-off in the cannabis sector. A number of factors have contributed to the industry's woes in 2019, including scandals at big names such as **Aphria**, **Namaste**, and **CannTrust**.

Those stocks have taken a harder hit than some of their peers, and the issues with a few cannabis companies not following the rules might be tainting the entire industry.

Another point of concern for investors is the lack of profits. Cannabis producers have raised billion of dollars and are spending the funds at a dizzying pace in an effort to scale up as fast as possible in many markets and across several product lines.

This is normal for a new industry, and there is a case to be made for taking on a winner-takes-all strategy. However, valuations are still at scary levels, and the market is starting to wonder when these companies are going to start making money.

Excessive losses are believed to be the reason Canopy Growth fired Bruce Linton, its founder, CEO, and chairman. The company is 38% owned by **Constellation Brands**, a U.S.-based beer, wine, and spirits giant that spent more than $5 billion on its investment in Canopy Growth in the past two years.

Constellation Brands is betting big on the potential for cannabis-infused drinks and might have become impatient with the big spending undertaken by Canopy Growth in its efforts to establish a leadership presence around the globe. Canopy Growth has development, production, or distribution facilities in Europe and South America to tap the expected surge in medical marijuana demand as governments adjust their marijuana regulations.

The company also has a deal in place to acquire U.S. firm **Acreage Holdings**, if marijuana sales become legal at the federal level in the United States.

Timing

The Canadian government is planning to launch the legal market for the sale of cannabis edibles next month. Cannabis-infused drinks would be part of the broader category that pundits are saying could be worth billions in additional sales per year, on top of the opportunity for recreational pot sales already authorized.

Buying Canopy Growth ahead of last year’s legalization actually cost many investors some serious money. The stock hit $75 just before the market went live in mid-October and was down to $36 before the end of the year.

This time, it appears investors are taking a wait-and-see approach, which might prove to be an opportunity to pick up the stock.

In the event edibles sales beat expectations, Canopy Growth and its peers could see a flood of new money move into the sector.

Should you buy?

Canopy Growth is positioned well to be a long-term leader in the global marijuana market. I wouldn’t back up the truck, but investors who are cannabis bulls might want to start nibbling.

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