Canopy Growth (TSX:WEED) Stock Craters But it’s Still Not Time to Sell

Description

It’s been a tough earnings season for cannabis companies, with **HEXO**, **Tilray**, and now **Canopy Growth** (TSX:WEED)(NYSE:CGC) turning in disappointing results. However, while investors have been quick to sell off their shares in affected companies, the industry is brand new, and the best way to get rich in the long term is to hold onto that stock. Let’s take a look at the latest developments.

With non-GAAP income down 163% and the net price per gram down by 48%, Tilray’s Q3 could definitely have been better. While there were some high points — revenues were up by more than 400% and the actual mass of product was up by 573%, it was Tilray’s bottom line that investors were really interested in. The market has responded appropriately, carving 9% off the pot stock’s price tag in the last five days.

Canopy is taking a hit on missed earnings

The market has been struggling to stay bullish on Canopy, though, by comparison with the performance of HEXO in the past three months, the industry favourite looks golden. Still, it might not feel that way at the moment, with Canopy cratering 17%. Investors with long positions will need nerves of steel to stay invested, as lower per-gram prices ate into the famous pot company’s bottom line.

Is Cannabis 2.0 a bust? It’s not looking great so far, with customer demand lower than expected, especially for cannabis products such as edibles and oils. Canopy’s second-quarter plunge are a good an indicator as any of the broader cannabis asset market at the moment, though the next few months could prove to make or break the new industry.

CEO Mark Zekulin was quick to point out the hurdles to growth in the industry: “The last two quarters have been challenging for the Canadian cannabis sector as provinces have reduced purchases to lower inventory levels, retail store openings have fallen short of expectations, and Cannabis 2.0 products are yet to come to market.”

With the holiday season almost upon us, the cannabis sector has a key opportunity to prove to investors that it can deliver the goods once and for all. All the asset classes of marijuana are now legal and ready to go, and with some of the biggest names in the industry getting ready to test the Canadian market with cannabis drinks and edibles, there's one last chance to recoup losses and establish legitimacy.

Canopy caught a brief tailwind when it was announced that the pot producer would be buddying up with Toronto entertainer Drake. Drake will own a controlling stake in The More Life Growth Co., and joins the ranks of Martha Stewart and Snoop Dogg in partnering with Canopy.

The bottom line

As the saying goes, you've got to be in it to win it. Long positions in market leaders still looks like the best way to play Canadian cannabis stocks, with much of the momentum sucked out of the sector over the past 12 months. The legal cannabis space is still very much in its formative stage, and once the market stabilizes, early investors in stocks such as Canopy could find themselves sitting on a gold mine.

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