



If Cannabis Stocks Are Out of Favour, Is Now the Time to Buy?

Description

Cannabis stocks had been on an impressive in the past. However, these top [growth stocks](#) have cooled off somewhat of late, as investors appear to be patiently awaiting the possibility of U.S. federal legalization.

Until that happens, Canadian cannabis stocks such as **Canopy Growth** ([TSX:WEED](#))(NYSE:CGC) continue to decline in a slow-and-steady fashion. The question is, is this selloff overdone? Or will the downside momentum continue?

Let's dive into what the outlook is for the cannabis sector looking forward.

Why are cannabis stocks plunging?

In my view, market dynamics is one reason that contributed to the collapse of cannabis stocks. Indeed, at the start of 2021, growth stocks provided outsized returns. And cannabis plays were certainly in the mix. As meme stock hysteria picked up, so too did the valuations of many high-priced cannabis stocks.

That said, since then, investors have saw fit to reset the valuations on this sector. Accordingly, Canopy Growth, for example, has seen its valuation cut by roughly two-thirds. This is a significant cut, and one that may prompt some investors to consider — yes — buying this dip.

Again, many cannabis investors appear to be dissuaded by the slow-moving freight train of legalization south of the border. Until we see some headline news driving sentiment bullish again, it appears this momentum will continue.

What should investors do with Canopy Growth?

As a key Canadian cannabis player, Canopy Growth is in an intriguing position. For the time being, investors will be forced to value Canopy Growth stock on the basis of its performance in the Canadian market. Sure, the company is making some investments in the U.S. that may pay off down the road.

The company [plans on expanding its operations](#) with **Acreage Holdings** and **Constellation Brands**. That said, its deal with the former will get finalized only after the federal legalization.

Should federal legalization take hold and foreign imports of cannabis be allowed, Canopy Growth could see some impressive upside. This is a speculative stock right now, and one which carries higher risk than many other stocks on the market. The question investors need to ask is whether the risk is worth the reward.

Bottom line

Cannabis stocks are inherently risky, and this is true now more than ever. That said, Canopy Growth is one of the largest and most stable names in this sector. Accordingly, investors looking for exposure to cannabis stocks may rightly choose to dive into a domestic name like Canopy and dollar cost average in.

That said, conservative investors may be better suited waiting on the sidelines right now. It seems too soon to tell whether sentiment will shift back in favour of investors in cannabis stocks just yet.

CATEGORY

1. Cannabis Stocks
2. Investing

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Date

2025/08/15

Date Created

2021/09/30

Author

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