Why Canopy Growth Stock Climbed as Much as 20% on Monday

Description

Canopy Growth (TSX:WEED) stock rose as much as 20% on Monday after more news regarding legalization from the United States Congress. However, the gains shrunk back slightly after the company made an announcement about an exchange transaction on Tuesday morning.

What happened

Canopy Growth stock climbed Monday on news that Congress could consider cannabis legalization very soon. While federal legalization remains unlikely in the near future, some good news could rally the entire sector.

What once seemed to be a dying industry even had short sellers losing interest. The industry has US$632 million in short interest, down from US$3.2 billion in May 2021. But with Congress meeting soon, there is a glimmer of hope that may lead to renewed interest in the industry.

So what?

Does this mean Canopy Growth stock will climb yet again? Not exactly. Shares of the company reached all-time highs of about $70 back in 2018, and those prices aren't likely to come back any time soon. However, the stock may also have bottomed out, creating a scenario in which they could climb and fall over the next while.

At the very least, this means short interest is falling, resulting in a less volatile situation than before. And Canopy Growth stock and others could climb again as Senate Democrats plan to introduce a bill to decriminalize marijuana.

Now what

News has boosted stock prices for now, but this might not last long. The bill isn't likely to pass. It needs

60 votes and faces tough odds once it reaches Senate Republicans. But it still gets the industry chatting again, and there is talk of other legislation that could be approved in the next few months.

Furthermore, experts predict legalization will eventually happen. When it does, Canopy Growth could become the largest marijuana producer in the world. For now, however, shares have fallen back slightly as the company announced the closure of an exchange transaction on Tuesday.

The cannabis company said it acquired and cancelled $263 million in outstanding notes. This was meant to deleverage its balance sheet and “preserve cash, and reduce interest payments” according to the company’s chief financial officer. However, the company didn’t exactly get a great price for the cancellation payment.

Foolish takeaway

So what does all of this mean for Motley Fool investors? There are some investors selling shares and taking profit while shares are up, but I wouldn’t recommend this. In fact, I wouldn’t recommend this when considering the market as a whole.

Shares are at their lowest not just for Canopy Growth stock, but the market in general. It’s simply *not* a good time to sell. The market trends upwards for those who are willing to wait. And frankly, everyone should be willing to wait at least a year before making any decisions about the current market.

With Canopy Growth stock, hopefully you got in as a long-term investment. Sure, growth is nice, but it’s been proven time and again that you get the most from companies you’re willing to hold for decades. 20 years from now, Canopy Growth stock will be up and legalization *will* have happened. And if you’ve sold, you’ll be looking back at your younger self and shaking your head.

As of this writing, shares of Canopy Growth stock are down 70% year-to-date, and up about 11% in the past week.

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