



## What's Next for the Marijuana Industry After Trudeau's Proposed Legislation?

### Description

Last Thursday, Prime Minister Justin Trudeau introduced proposed laws for the legalization of marijuana. The Canadian government plans to legalize marijuana by July 2018 and set the minimum age at 18. However, it will be up to the provinces to determine how it will be distributed to consumers within their jurisdictions.

With uncertainty surrounding how the retail sale of recreational cannabis will play out and the anticipated legalization date continually being prolonged, how will it impact major players like **Canopy Growth Corp.** ([TSX:WEED](#)) and **Aphria Inc.** (TSX:APH)?

Here's some insight on the retail sales of cannabis and an extended legalization date.

### Impact of provincial regulation

Although there are many unknowns regarding the retail sales within each province, this shouldn't impact the large producers. Look at the alcohol industry in Canada as an example. It's regulated differently in each province, but the large suppliers continue to generate significant revenue.

The onus will be on the provinces to figure out how to turn a profit from this industry. With clear market demand for marijuana, and the large players poised for the recreational market, there will be significant pressure on provincial retailers to get the product to consumers. Therefore, Canopy and Aphria are still well positioned to capitalize on the legalization of cannabis.

I firmly believe that regardless of how cannabis is regulated among the provinces, Canopy and Aphria have the opportunity to become the **MolsonCoors** or **Constellation Brands** of the marijuana industry.

### Impact of delaying legalization

The biggest risk associated with a delay in legalization is the stock prices of these companies. These marijuana producers are overvalued based on fundamental investing principles; the hype surrounding the recreational market is “baked” in to the current stock prices. Therefore, significant losses could be incurred if investors become impatient and sell off their shares.

In addition, since they are already overvalued, it could take longer for these companies’ earnings to catch up to the current valuations. Therefore, the only way investors can generate significant returns on these investments is if the hype continues to build and the recreation market isn’t further delayed. However, capitalizing on market hype is not an investing approach Foolish investors should use.

### **Foolish bottom line**

I believe marijuana will be legalized at some point, but it could be later than July 2018. However, with the next federal election expected to be in October 2019, Trudeau may feel some pressure to push this campaign promise through before Canadians head back to the polls.

Either way, if investors want to buy shares in the marijuana industry, I’d only recommend buying either Aphria or Canopy, and in a small portion of their overall portfolio. These companies are most likely to emerge as victors in the marijuana industry and are well positioned for the recreational market.

### **CATEGORY**

1. Investing

### **TICKERS GLOBAL**

1. TSX:WEED (Canopy Growth)

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### **Category**

1. Investing

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