Potential Stock-Trading Policy Change a Huge Negative for Canadian Marijuana Growth Stocks

Description

The Canadian Depository for Securities (CDS) is considering the non-facilitation of trades involving Canadian marijuana companies with U.S. assets. Marijuana is still illegal in the U.S., and if such a policy comes to fruition, **Aphria Inc.** (TSX:APH), which just came off an incredible quarter, may take a huge hit on the chin because of its U.S. expansion.

Although there have been issues arising as Canada approaches its legalization date, the stock-trading policy change is due to the differences in the Canadian and American government's view of marijuana.

Some premiers are pushing to have legalization delayed to 2019, but Prime Minister Trudeau wants to address concerns as soon as possible, so the original hard deadline of July 1, 2018, can still be met. Although there have been many setbacks and the potential for additional delays, Canada is quickly approaching the much-anticipated nationwide legalization date, and it's expected that the federal government will continue to grant more licences, so many more producers will be popping up on the TSX.

Aside from a few potential delays and uncertainty regarding the terms and the exact date of legalization, the marijuana industry is thriving in Canada, as producers like **Canopy Growth Corp.** (TSX:WEED), **Aurora Cannabis Inc.** (TSX:ACB), Aphria, and **MedReleaf Corp.** (TSX:LEAF) prepare themselves for the Canadian green rush once post-legalization demand surges.

Trump administration pushing for more regulation on marijuana and other illegal drugs

The real issue is with producers that have done business in the U.S., for which there aren't yet clear plans to have nationwide legalization in the near future. In Canada, medical marijuana is legal, and recreational marijuana's legality is on the horizon, but aside from a few states, marijuana is still highly illegal at the federal level in the U.S.

The Trump administration has made it very clear its plans to beef up the enforcement of federal drug laws. Attorney General Jeff Sessions, the administration's task force on crime reduction and public safety, believes there exists a link between marijuana use and violent crime, and he's been pushing for tougher penalties.

What does that mean for Canadian pot stocks with U.S. assets?

We can only speculate on what may happen right now, but it's still possible that an alternative solution may be worked out. One thing is for sure: the flow of capital will be disrupted, and that's not good news for the marijuana industry or Aphria, which pulled back 5.71% on August 3, 2017, following the underwhelming news.

It's a real shame for Aphria in particular, because it has been firing on all cylinders when it came to operational efficiency, and the U.S. expansion plan sounded like a promising growth prospect. Although U.S. money may potentially not be coming in going forward, I'm not sure if investors should be dumping marijuana stocks at these levels.

As I've mentioned in the past, the headline risk for marijuana companies is huge, even for top-notch producers like Aphria, which arguably has one of the most efficient operations in the marijuana space right now.

Bottom line

If you're a shareholder of a marijuana stock, then you might want to wait until we learn more about the specifics of CDS's plan. It's a clear negative not just for Canadian producers with U.S. assets, but for all marijuana stocks in general, since the prospect of U.S. expansion sounded like a very promising future initiative, and less money may be going into the Canadian marijuana industry as a whole.

Unfortunately, volatility will pick up because of this story, but as a marijuana investor, you're probably already familiar with excessive amounts of headline risk, and if you're not, then you'd better prepare yourself, because there's definitely going to be more on the horizon.

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