

# Marijuana Investors: Is the Sky-High Legalization Demand for Cannabis Just a Hallucination?

## Description

If you're an investor in pot stocks, I'm sure you're well aware of an imminent cannabis supply shortage once the drug is finally legalized. **Canopy Growth Corp.** ([TSX:WEED](#)), **Aurora Cannabis Inc.** ([TSX:ACB](#)), and **Aphria Inc.** (TSX:APH) are ramping up to prepare for what some speculate will be a post-legalization demand surge, as Canadians become more willing to light up recreationally.

But with Canadians being allowed to grow marijuana in the comfort of their own homes, a lack of "fun" promotional branding, and a higher cost per gram due to taxation, will Canada's big pot producers really experience the immediate boom that they're predicting?

At this point, it looks like the black market may become a major issue, since the cost per gram of marijuana is expected to become quite high, especially if regulators slap a more aggressive tax than expected. According to a study done by **Canaccord Genuity**, the medical marijuana market is expected to stabilize, possibly in 2020, where the cost per gram will be ~\$8. Slap on a federal pot tax (which is slated to be ~10%) and GST/HST, and you're looking at potentially paying more than \$10 per gram of marijuana in a year or two after legalization.

Within the first year or two of legalization, the average price per gram is likely going to be considerably higher than this, and while I'm sure many pot smokers would be willing to open their wallets for the convenience, I think many would find it much more economical to grow their own if taxes are too high.

For those who can't grow their own, well, they'll likely know someone who can grow it and share (or possibly sell) it to them in large quantities. A single marijuana plant could produce more than enough product for several chronic users, and given the potentially relaxed attitude toward household marijuana growth, there's a high chance that medical and recreational users will get their pot from a black market source.

If this happens, the supply shortage that many producers are expecting may prove to be exaggerated, and as a result, shares of all pot stocks could begin to decline in the quarters after marijuana is legalized nationwide. Regulators will need to realize that they'll need to keep legal pot at a competitive price; otherwise, the "grow-your-own" and black markets will likely fulfill the needs of pot users. Marijuana is just going to be another commodity come legalization day, and if taxes are excessive, producers will need to take a hit on the chin to keep prices attractive to users, who can easily supply one another through their own home-grown marijuana plants.

At these levels, cannabis stocks are [highly speculative](#), and you [shouldn't invest money that you're not willing to lose](#). The sky-high demand may end up being all smoke in mirrors, especially since Canadian regulators are setting up an environment that isn't the most favourable for large-scale producers.

Stay hungry. Stay Foolish.

## CATEGORY

1. Investing

## TICKERS GLOBAL

1. TSX:ACB (Aurora Cannabis)
2. TSX:WEED (Canopy Growth)

## PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

## Category

1. Investing

### Date

2025/10/01

### Date Created

2018/02/24

### Author

joefrenette

default watermark

default watermark