

Why This New Cannabis IPO Could Skyrocket This Week

Description

New Initial Public Offerings (IPOs) are always exciting. On Canadian exchanges, it appears that new cannabis offerings are happening on an increasingly more frequent basis, with news of NASDAQ listings and TSX upgrades from the venture exchange driving valuations higher in a sector that has seen multiples grow to nosebleed-levels.

This week, **The Green Organic Dutchman** is expected launch in Toronto, spurring interest in how this IPO will perform given the current [highly volatile market](#), as reported by fellow Fool contributor Ambrose O'Callaghan. This IPO has reportedly already raised \$100 million, and the stock will reportedly launch at \$3.65 per share sometime this week.

Making predictions is fun, and in the case of new IPOs, predictions always abound. I won't pretend to know exactly what's going to happen given the fact that weed stocks have been soaring and dipping by double-digit percentages during recent trading sessions, but I do have a prediction as to the direction of this IPO in particular, at least in the very near term.

Given the fact that Green Organic has already found suitors for \$100 million in financing, assuming a large percentage of the overall float is locked up by insiders or other long-term investors, I would expect to see the small outstanding float trade substantially higher in the very near term. The reason for this and for much of the rapid increase in cannabis stocks overall is that insiders have the ability to influence a company's stock price by putting a floor beneath the float that's trading, driving prices higher in the near term in hopes that retail investors will continue to flock into momentum plays over the medium term and thereby continue the stock's upward momentum.

Consider a company with 100 shares, of which 95 shares are locked up by insiders and five shares trade on the public market (an extreme example). An insider holding 20 shares could buy one of the outstanding shares for a higher price, and trade it with another insider who owns a separate 20 shares for an even higher price, driving prices up in the very near term. The cost to such an insider is the marginal difference in price of the one share, and the value of the 20 shares owned by each individual would be increased by the corresponding stock price jump, thereby netting the investors a 19 times return on their money.

This is an example of "painting the tape," a market manipulation strategy that's historically been employed typically by small venture companies. The extent to which Canadian cannabis firms are engaging in such practices is hard to gauge, although if recent news is any indication (remember the [sweet deal](#) **Aphria Inc.** (TSX:APH) insiders got on its **Nuvera Inc.** (TSXV:NUU) acquisition in late January?), I would expect to see some highly bullish activity.

I'm highly skeptical of this entire sector, and I believe regulators need to take a deeper look into what is happening in many of the equity issuances recently. I believe this entire sector represents a very risky trap for long-term fundamental investors, who may be tempted by unreal returns in the near-term. My worry is that hard-working Canadian investors will see their savings and retirement nest eggs impacted

by the eventual crash as investors return to reality.

Stay Foolish, my friends.

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