

2 Big Concerns for the Cannabis Industry That Could Derail its Growth

Description

Much of the hype fueling marijuana stocks has centred around the expectation that once pot becomes legal, companies will see significant demand and that sales will skyrocket. However, investors shouldn't take that as a given, and there are a few reasons why growth may not live up to expectations.

Pot usage won't likely go up just because it's legal to smoke

The government released data relating to its National Cannabis Survey last week, and one of its findings was that around 80% of those surveyed indicated that their cannabis usage would not increase once it is legal to smoke, nor would legalization encourage non-marijuana users to give pot a try. If consumption does not change, then it's hard to see where the industry will get its growth from, especially given that the government estimated the size of the industry to be [around \\$6 billion](#) back in 2015, which is around the value of **Canopy Growth Corp.** ([TSX:WEED](#)) alone.

Many pot smokers who already use cannabis do so regardless of legislation. Thus, it's unlikely that simply making pot legal will encourage users to smoke more.

Users may still opt for the black market and other sources

In the same survey, nearly one-third of respondents sourced cannabis from their family and friends, which was higher than the number of users who sourced marijuana from a dispensary. It's expected that marijuana legislation will allow people to grow cannabis in their homes, which will create the potential for someone to produce their own pot and while that could certainly encourage experimentation and lead to more usage, it won't translate into more sales for public companies.

In addition, with taxes making pot more expensive and government red tape making it difficult to purchase marijuana in some provinces, the black market could still be a cheaper and easier way to obtain pot. This is especially true for users who are anti-corporation and would prefer to support local dealers instead.

What this means for investors

These concerns are significant, and investors shouldn't expect that growth will be exponential and that demand for pot will be enough to justify the high valuations that we see in the industry today. It's also why many Canadian pot stocks are turning to other parts of the world to try and grow their operations, and sometimes taking big risks to do so.

Aphria Inc. ([TSX:APH](#)) recently encountered [issues](#) for having investments in the U.S. and got the attention of the TSX. Companies are taking steps to stake out key positions in the industry to carve out market share, but that isn't going to be easy.

There is much fragmentation in the industry, and many new entrants aren't making it any easier. While Canopy Growth and **Aurora Cannabis Inc.** ([TSX:ACB](#)) can certainly try to acquire their way to market

share, the problem is that the cash will run out sooner rather than later. As tempting as it may be to invest in pot today, the safest decision might be to wait in the sidelines for now.

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2. TSX:WEED (Canopy Growth)

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