Why Investing in Pot Stocks on the Canadian Securities Exchange Might Not Be a Good Idea

Description

The Canadian Securities Exchange (CSE) has become a popular option for many pot stocks these days, as the exchange has looser rules when it comes to cannabis companies that operate in the U.S.

Earlier this year, we saw the TSX put companies on notice that were listed on its exchange that even had holdings in U.S. marijuana companies, noting that as the drug is still illegal at the federal level in the U.S. that any such investment would be in violation of U.S. law, which would also mean non-compliance with the TSX's listing requirements.

Aphria Inc. (TSX:APH) is one such stock–and it ultimately sold off some of its assets.

The CSE, however, has welcomed companies on its exchange that not only have investments in the U.S., but that operate there as well. **MedMen Enterprises**, which operates pot shops in multiple U.S. states, found a great opportunity on the CSE to get the funding and exposure that it wouldn't have been able to on the bigger exchanges.

The drawbacks of the CSE

The CSE calls itself the Exchange for Entrepreneurs–and rightfully so given the risk involved on smaller exchanges like this. While the opportunities could be big, the risks could be even greater when investing in these types of stocks. It's one reason many investors steer clear of smaller exchanges altogether and prefer more established options like the TSX, NYSE, or NASDAQ.

Another big issue that came to light this week was that when it comes to private placements, investor information is not kept private at all. Through the CSE's Form 9, an investor's name, address, and the amount of shares they purchased is available publicly. While this only impacts private placements rather than public offerings, which is where most investors will buy shares, it could still have a significant impact.

Big investment dollars come via private placements, and if those investors are now deterred from investing on the CSE because of these privacy issues, that means less investment dollars for venture stocks, which could impact their ability to grow. Especially with people running into issues at the border for investing in U.S. pot, the CSE making this information public could scare away potential investors.

The CSE is able to attract a limited number of investors to begin with, and these issues will only make those number even smaller.

Takeaway for investors

If you're buying from a smaller exchange like the CSE, it's important you don't neglect that fact. Stocks on these exchanges often present much greater risks than those listed on the main exchanges. And this latest issue only adds to that risk, which likely makes the CSE an even less-appealing option for investors.

Marijuana stocks have been very volatile this year and have started to falter, even on the TSX. After a strong 2017, Aphria's stock has declined more than 40% so far in 2018. It's a risky investment today, and if you're investing in pot stocks on the CSE, you're taking on even greater risk.

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