



## This Pot Stock Dropped 28% Yesterday Because of This

### Description

Pot stocks have been picking up steam lately, especially as we've started to see more beverage makers look to [get into the industry](#), partnering with cannabis companies in preparation of edible marijuana being legalized (which is expected to happen sometime next year) and to allow plenty of time to work on drinks that could hit the shelves by then.

The problem is, there is also a lot of risk when it comes to these investments as well, and their prices can be very volatile and reactive to news and reports. On Thursday, we saw a glimpse of just how big of a correction can happen when **Cronos Group** ([TSX:CRON](#))([NASDAQ:CRON](#)) went over a cliff, dropping 28% in value in one day.

### What happened?

With a drop like that, you may have expected that Cronos had a bad earnings day or perhaps that it had some bad news relating to its production or plans for the future, but you'd be wrong.

All it took was a report from Citron Research that alleged there was a "great deception" on the part of Cronos because it had not disclosed the distribution agreements that the company had with different provinces, suggesting that "the agreements are so small they could never justify the premium investors are paying for the stock."

What surprises me is that this type of information would have such a damaging impact on the stock. Across the board, pot stocks are incredibly expensive, and even with the best, most attractive agreements with provinces, I still don't think you can justify the obscene premiums people are paying for the stocks today. While the report is hardly news; it underscores just how volatile pot stocks can be and how easily their values can be impacted.

This is not the first time Citron Research has been able to have such a big impact on a stock. **Shopify** investors know Andrew Left's company all too well, and it's been hit with multiple reports over the past year. It was almost a year ago when he [criticized the company's business model](#), and that sent the stock into a free fall. While Shopify was able to recover, it's a reminder for investors that speculative stocks can be highly sensitive.

### Big risks for cannabis investors

A friend and I normally get into debates about whether investing in cannabis companies is a good idea, and his argument usually goes back to the fact that the stocks have risen so much in value and are likely to continue to do so. The problem is, this is how bubbles form, by hype, and it is really amusing that only days ago I suggested that all it could take is one big news item or report that could negatively impact the industry that would send investors into a panic and lead to a sell-off.

When the reason you buy a stock is because of its price movement, that's when you've started to speculate rather than invest, and that's where you start to expose yourself to significant risk.

### CATEGORY

1. Investing

### TICKERS GLOBAL

1. NASDAQ:CRON (Cronos Group)
2. TSX:CRON (Cronos Group)

### PARTNER-FEEDS

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

### Category

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djagielski

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