

# What to Expect When Pot Legalization Hits in One Month

## Description

The big day is almost here. One of the most hotly debated pieces of legislation in recent history—cannabis legalization—will take effect one month from today. While in-store sales will not take place in some provinces until April, online sales will commence as soon as bill C-45 takes effect on October 17.

The date is an important one for investors and market watchers. Cannabis is rapidly becoming one of Canada's largest industries, and legalization is will have a massive impact on Canada's cannabis giants. And with two of the three largest cannabis companies headquartered in Canada, it will have a large impact on the cannabis industry worldwide.

It goes without saying that many Canadian investors are looking forward to October 17. But the ultimate effect of the looming changes may not be the profit bonanza that some are anticipating. There are a few ways that legalization could play out, and not all of them are favorable to cannabis stocks. I'll start with one of the most likely scenarios.

### Higher sales volume

It's a pretty safe bet that cannabis legalization will result in higher sales numbers at cannabis companies. Stocks like **Canopy Growth Corp** ([TSX:WEED](#))(NYSE:CGC) are already posting high-double-digit revenue growth, with no signs of slowing down. As recreational sales bring more customers into their target market, revenue growth will likely increase.

That said, the effect may not be as big as some are anticipating, as Canada's cannabis companies have large international operations. Canopy operates in 11 countries, while **Aurora Cannabis Inc.** ([TSX:ACB](#)) operates in about 14. Given this vast international reach, it's not clear that big growth in the domestic market will light these companies' revenues on fire. And things get even hairier when we consider the second scenario.

### Price competition

In order to compete with the informal cannabis market, Canada's legal vendors will need to stay competitive on price. The problem is that the price of illicit cannabis is falling in anticipation of legalization, which is similar to what we saw in Colorado when cannabis was [legalized there](#).

In order to realize the increased sales that the recreational market promises, cannabis vendors may have to reduce their prices. And if that happens, they're in trouble, because most of these companies are already dealing with huge and growing quarterly losses.

### Increased volatility

Cannabis stocks have been extremely volatile in 2018, and when legalization takes effect, the volatility may increase. The cannabis industry is marked by a roller coaster of investor sentiment: one day, a pot

company possess staggering losses and investors panic; the next day, the same company gets a huge M&A deal and investors drive the price into the stratosphere. For companies like **Aphria Inc.** (TSX:APH), daily price swings of 10% or more are almost the norm.

I expect that legalization will only intensify this roller coaster effect in the cannabis sector. Legalization will spur a [massive amount of media coverage](#), and when the news is good (i.e., M&A deals or new cannabis supply contracts) it will send investors scrambling to buy up cannabis stocks.

But when it's bad, it will have the opposite effect. Amid a sector where huge earnings misses and equally huge M&A deals compete for attention, that's a recipe for serious volatility.

## CATEGORY

1. Investing

## TICKERS GLOBAL

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

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## Date

2025/08/28

## Date Created

2018/09/17

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