



The Moment of Truth for the Cannabis Industry

Description

The second week of October was a dreadful one. News of sharp declines in the main U.S. stock market benchmarks reverberated across global exchanges. In Canada, the TSX mirrored the triple-digit drops of the Dow Jones, falling 336.65 points (-2.12%) on Wednesday followed by 200.27 points (-1.29%) on Thursday.

Coincidentally, the TSX ended the week in the same way the blue-chip Dow did. It rebounded and advanced 97.16 points (+0.63%) to close at 15,414.29. With the unsettling events, would investor enthusiasm on cannabis stocks be dampened when recreational marijuana becomes officially legal on October 17?

How the week went for cannabis industry leaders

The rising bond yields, which triggered steep declines in [U.S. stocks](#), couldn't have come at a worse time. Naturally, investors are worried, especially those who are preparing to beef up their stock portfolios by purchasing shares of Canadian cannabis companies. Big gains are anticipated with the legalization of recreational pot.

Nonetheless, nearly all [cannabis companies](#) remain optimistic. The week wasn't actually a disaster for the industry leaders. The shares of **Canopy Growth** slid an average of 1.43% for two days before closing higher by 5.89% to finish the week at \$64.90.

Aphria soared 15.5% on mid-week to \$20.06 then dropped by an average of 2.39% in two days to end the week lower at \$19.11. The company sent out information on Friday to prospective clients that a shortage of cannabis for recreational use looms both in its physical and online stores.

Aurora Cannabis could be the industry leader

Among the well-known cannabis companies, **Aurora Cannabis** ([TSX:ACB](#)) is preparing to scale new heights. The shares of Aurora fell by an average of 2.36% in the two worst days of the week but regained their footing to climb 8.64% to \$13.71 on Friday.

In terms of income generation, Aurora can't yet boast of delivering consistent profits. The company's main concentration is ramping up its production capabilities to be ahead of rivals. The direction Aurora is taking to gain market leadership is different if not radical.

The company is hoping its investments in several peers in the industry will pay off sooner than later. Aurora is on the verge of achieving complete vertical integration since each of the companies where it invested in possesses different capabilities. Aurora is in effect building a "strong complementary portfolio."

The moment of truth

With just a day before the momentous occasion, the moment of truth will descend on the cannabis sector. The optimism is fever pitch, although nothing is definite at this point. The future of the industry behemoths as well as the smaller weed companies are at stake.

Almost every company, not just Aurora, has grand plans to succeed. But things may not be smooth come October 17. Problems may arise in the area of distribution depending on the effectiveness of each province that is tasked to oversee the process.

There will be growing pains at first before the market eventually settles down. Only time will tell if the industry in general will live up to its potential for growth. Loyal and prospective investors are keeping their fingers crossed while expecting hefty gains at the same time.

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