



Why CannTrust Holdings Inc (TSX:TRST) Jumped 19% Earlier in October – And Why It's Fallen 20% Since Then

Description

The performance of **CannTrust Inc** (TSX:TRST) stock in October has been a study in contrasts. Earlier in the month, the stock was on a minor rally, rising about 19% from October 1 to October 15. Later, it shed these gains, with the decline starting slightly before legalization hit on October 17th.

The move was part of a broader selloff in cannabis stocks, which saw shares in big-name producers like **Canopy Growth Corp** and **Aurora Cannabis Inc** slide dramatically. While some might be tempted to view this as part of the broader TSX sell-off, that explanation doesn't quite work, whereas the TSX has recovered since last week, cannabis stocks are still down.

The question is, *why?* With stores selling out of cannabis and customers lining up for miles to get their hands on it, all the stars seem to be aligning in pot producers' favour. CannTrust's fall is particularly surprising, as it's by far the most profitable major cannabis producer.

So what's *really* going on here?

To answer that question, we need to look at legalization and how it's likely to affect cannabis manufacturers.

Legalization: uncertainties abound

Pot legalization has generally been framed as a boon to cannabis producers, and so far it appears to have been: recreational cannabis is moving off of shelves faster than medical cannabis ever did, and selling out nationwide. But questions remain about how legalization will impact producers. Will oversupply lead to depressed prices? Will pressures at the U.S. border lead to increased regulation? Will demand start to wane as the initial euphoria surrounding legal weed wears off? These are hard questions to answer, and until fall earnings data starts to roll in, investors may choose to stay agnostic on them.

Hit by a correction?

This month's correction may have influenced CannTrust's declining share price. Although the correction started before CannTrust shares slid, it's possible that cannabis investors were slower to panic because of optimism regarding legalization. This could explain why shares began falling just two days before October 17. Perhaps cannabis investors remained confident in their holdings until later in the correction, when publications started throwing the word "*recession*" around and the overall panic-stricken atmosphere overcame the legalization euphoria.

A sector-wide slump

Finally—and although this point is already implicit in what I've written so far—it bears repeating that CannTrust has fallen as part of a [sector-wide cannabis slump](#). At the time of this writing, *all* TSX cannabis stocks are down from their early October highs. This slump is most likely due to a combination of earnings anxiety (most cannabis stocks are struggling with profitability), spillover effects from the DOW/TSX correction, and uncertainty about whether legalization will truly be the shot in the arm that cannabis stocks need in order to become profitable. Indeed, many of these concerns are warranted.

The good news for CannTrust investors is this: sector-wide fluctuations are temporary. A stock that outclasses its peers in terms of earnings and ROE may beat them in the markets in the long run. And as the [most profitable](#) cannabis stock by far—measured in terms of both net and operating income—CannTrust may be the pot stock to outclass the competition in the brave new world of legal cannabis.

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