

Pot Stocks Get Clobbered as Aurora Cannabis Inc (TSX:ACB) Sheds 9% on 1st Day of U.S. Trading

Description

We're just one week into legalization and things aren't looking great for pot stocks.

Just after listing on the New York Stock Exchange, **Aurora Cannabis** ([TSX:ACB](#))(NYSE:ACB) tumbled 9% in a single trading day, capping a week-long losing streak for the cannabis sector. Other stocks that slid in the same period include **Canopy Growth** and **CannTrust Holdings**. Later on Tuesday, prices began to recover, but they remain down from previous highs.

Poor performance in pot stocks has puzzled some market commentators, who saw last week's legalization as a boon to the industry. While the bear run was most likely influenced by Tuesday's broader TSX tumble, pot stocks are down more than the TSX average. This raises the question: *why?* With massive lineups and supply shortages nationwide, it's all but certain that cannabis companies saw a huge revenue boost last week. So, what can explain the dimming investor sentiment toward cannabis stocks?

Profit taking

One possibility is that this week's tumble simply reflects profit taking by pot investors. Legalization didn't jump up on anybody by surprise: it was announced many months in advance. Investors could reasonably foresee what happened last week.

In the months before legalization, pot stocks had been on a massive rally, which saw some of them climb [as much as 800%](#) in a few weeks. Perhaps some investors simply bought ahead of legalization and, once the big day came, cashed out of their positions, believing the best was now behind them. This theory could explain the fact that the pot stock slide started almost on the exact day that legalization came into effect.

Special circumstances

There's no denying that cannabis manufacturers earned substantial revenues last week. "Sold out" signs on cannabis stores nationwide attest to that. But what happened in the past is not necessarily a predictor of what will happen in the future.

The first week of legalization was as much a cultural moment as a business one. Interviews taken on the 17th reveal that many people lined up simply to be "part of history." If the long lineups observed at cannabis stores were simply a product of people wanting to participate in something novel, then it stands to reason that cannabis demand won't remain as strong going forward.

And that's not the only reason to believe that demand will cool off. Another concern is pricing. Legal cannabis prices are reportedly higher than black market ones, especially when you factor in taxes. It's very likely that black market vendors will keep selling if they can maintain this competitive advantage — and there's no reason to believe they won't. If this comes to pass, then last week's cannabis lineups

will prove to have been a temporary affair in short order. Another possible scenario is that cannabis companies capture market share from black market vendors by [lowering prices](#). Unfortunately, this would also be bad news: lowering prices means lowering margins, and that's not good for an industry that's already struggling with profitability.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NASDAQ:ACB (Aurora Cannabis)
2. TSX:ACB (Aurora Cannabis)

PARTNER-FEEDS

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

Category

1. Investing

Date

2025/08/18

Date Created

2018/10/24

Author

andrewbutton

default watermark

default watermark