



## What Plummeting Pot Prices Mean for Canadian Marijuana Investors

### Description

Just to be clear, the retail price of marijuana in Canada remains stable for now.

Now underway in full force in Canada, the legalization experiment has drawn attention from around the world. Canada is the first G7 country — and only the second country in the world — to legalize cannabis at the federal level. Absent accurate data to capture what consumers actually paid for their weed pre-legalization (it was illegal, after all), the government has made pricing and taxing decisions largely on the basis of what other regions of the U.S. and other Western nations have done in terms of medical and recreational marijuana pricing given the length of time many of these places have had to gather data.

In that regard, it may be useful to glean from the experience of other locales what may be in store for Canada's largest pot producers, such as **Canopy Growth Corp.** ([TSX:WEED](#))(NYSE:CGC).

### The Colorado experiment

The first North American locale to legalize recreational pot, Colorado has gathered the best data set on long-term pricing changes relative to any other district which has undergone legalization in the world.

The data reveals that [supply and demand fundamentals](#) (which appear to be very similar in the Colorado and Canadian markets) have led to spiraling pot prices in Colorado. The average wholesale price per gram of cannabis in Colorado dipped below US\$2 per gram (approx. \$2.56 per gram) this past summer from an average wholesale price of US\$4.30 per gram (approx. \$5.69 per gram) five years ago.

With cannabis currently wholesaled at \$8.18 per gram for medicinal and \$7.43 per gram for recreational in Canada, the experience of Colorado may indicate the prices producers are receiving currently are abnormally high currently, and could drop precipitously over time, potentially destroying any hope of decent margins in this space.

With governments seeking to siphon as much profit (indirect taxation) as possible from its government-run stores across the country, I would expect price pressure to rear its ugly head sooner rather than

later for cannabis producers, who will all have to deal with what will (in most cases) turn out to be provincial buying monopolies that will be able to dictate exactly what price they wish to pay and put an RFP out there to see which producers will bite.

### Bottom line

While Canadians may be used to paying more for consumer goods than consumers in the U.S. or Europe for the same goods, cannabis is as much a commodity as wheat, soy, or oil, and will be subject to the same market constraints as any other commodity over the long-run. Supply and demand fundamentals will drive profitability for producers, who will remain price takers in the most textbook sense of the word (time to dust off that Econ 101 textbook, folks).

For long-term investors in pot producers, I wish you luck. For everyone else, I would advise studying what data is available before making any [investment decisions](#) that could turn out to be costly.

Stay Foolish, my friends.

### CATEGORY

1. Investing

### POST TAG

1. Editor's Choice

### TICKERS GLOBAL

1. NASDAQ:CGC (Canopy Growth)
2. TSX:WEED (Canopy Growth)

### PARTNER-FEEDS

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

### Category

1. Investing

### Tags

1. Editor's Choice

### Date

2025/08/01

### Date Created

2018/12/02

### Author

chrismacdonald

default watermark