



Revealed: A Looming Catalyst That Could Send Cannabis Stocks Skyrocketing

Description

Cannabis stocks have lost their [lustre](#) of late, but the catastrophic implosion that accompanies a bubble bursts has yet to happen three quarters into year one of nationwide legalization.

While it may seem somewhat safer to invest in cannabis firms like **Canopy Growth** ([TSX:WEED](#))(NYSE:CGC) now that they've had the opportunity to establish themselves in a post-legalization era, it's important to remember that there are uncertain material side effects from mixing cannabis and politics.

Yes, political risk is returning to the world of cannabis as election day in Canada approaches.

Over the coming months, we'll likely be learning more details from the Tories about their views of legal cannabis. Based on Conservative leader Andrew Scheer's commentary on the matter thus far, a Conservative victory could potentially act as an overhang on pot stocks across the board.

Fortunately for cannabis investors, Scheer noted that his Conservatives "would not change the [legal nature of cannabis](#)", but that "a lot of work" still needed to be done. The Conservative party's decision to scrap the idea of potentially reverting the cannabis legalization shouldn't have come as a big surprise, as such a move would have involved a tonne of paperwork for a negative return on investment. But what the "extra work" entails could act as an extra layer of uncertainty to an already ridiculously hazy industry.

Scheer's Conservatives are considering "adjusting" some of the rules, and given the negative commentary on cannabis legalization that Scheer and the Tories have expressed in the past, I'd say such adjustments may act as a double-edged sword.

Today, legal cannabis sales are highly regulated with minimal branding on packaging and those red warning stickers placed on all legally sold products. And in a Tory victory, I'd say such an "unrelaxed" framework will remain throughout Scheer's mandate.

Given that Scheer is no fan of cannabis in general, investors may perceive a Conservative victory as a reason to sell shares. But I think there are material benefits to pot firms should Scheer decide to modify

(or potentially scrap) the rule that allows households to grow up to four cannabis plants.

There's no question that household growth is a spark for Canada's cannabis black market. So, any such efforts to hinder the black market would be a boon for cannabis producers, as they win back some of the business that's been lost to the black market. Of course, the boon may be offset by a decision to crank up taxation, so investors will need to brace themselves for material headlines and the return of ridiculous amounts of volatility in both directions.

It's tough to gauge just how large the magnitude of moves will be in response to political headlines, but one thing is sure: the move, whether positive or negative, will be exaggerated.

Pot stock valuations across the board remain overly frothy, and that froth may easily be wiped out in the meantime, but as political commentary dictates the trajectory of stocks once again, I see opportunities for traders to make quick profits.

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