These 2 “What ifs” Could Kill Your Cannabis Stocks

**Description**

The healthcare section of the TSX was dragged down by a single stock last week in a shocking development that threatened to undermine the fledgling cannabis industry. But what if things got worse for marijuana investors? Let’s take a look at two plausible scenarios that could further impact the “green gold rush” and wipe value from some of weed aficionados’ favourite tickers.



## What if another “CannTrust” incident happens with a different producer?

When the news broke that Health Canada had concluded that **CannTrust Holdings** (TSX:TRST)(NYSE:CTST) had been producing cannabis from an additional five rooms not under license between October 2018 and March 2019, the share price halved, weighing heavily on the healthcare sector and casting doubt on the cannabis industry as a whole.

With a massive five-day loss of 48.30% over the weekend, CannTrust’s name has become bitterly ironic overnight. Taken all together, the stock has seen more than 60% of its value obliterated since March. With sales of its product now on hold and the future of the grower up in smoke, cannabis investors may well be nervous that similar oversights may have occurred among other cannabis companies, and that more shockers may be on the way.

Cannabis stocks fell on the news, with only a couple of tickers displaying buoyancy. If an additional breach of regulations were uncovered, investors could see their favourite pot stocks take an even bigger hit. While this may create value opportunities for brave investors seeking a long position in the green stuff, current shareholders could face a tough decision between losing cash and fanning the flames of a cannabis conflagration.

## What if Canopy Growth’s deal with Acreage Holdings falls though?

When a deal is expected between two companies, investors wishing to bet on its closure need to be sure that circumstances will remain more or less the same. What they don't want to see is the loss of a CEO or pressure from a major stakeholder. Unfortunately, that's precisely what's befallen **Canopy Growth** (TSX:WEED)(NYSE:CGC) recently, casting some doubt over its planned acquisition of **Acreage Holdings**.

While investors stand to gain in the long term if the deal eventually goes through, there are a lot of contingencies that have to be met for it to do so, not least of which being the actual legalization of recreational cannabis in the United States. Besides which, seeing as the legalization process could still take as long as 7.5 years, betting on this deal is a long-term play, meaning something of a wait if you're getting into Canopy Growth purely for this payoff.

Additionally, new management may nix the deal — a move which won't necessarily be good for shareholders. Another threat comes from the industry itself, and the failure for the stratospheric growth predicted by gung-ho pundits to materialize. Worse yet, if another CannTrust-type incident occurs, investors sitting on the sidelines may lose confidence in cannabis companies, leading to a perfect storm of selloffs.

## The bottom line



If the Acreage deal falls through, it may be time for Canopy Growth to find another high-quality acquisition. However, after the CannTrust incident, finding serious partners in connected sectors may be increasingly difficult for cannabis producers. Still, the sheer amount of money to be made in this brand new industry will have aficionados sticking unshakably to long positions whatever happens in the next few months or years.

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