



Should You Buy CannTrust Holdings (TSX:TRST) on Recent Rumours?

Description

CannTrust Holdings's (TSX:TRST)(NYSE:CTST) recent downfall has been [well documented](#). The company was caught illegally growing marijuana in areas not approved by Health Canada.

The fallout was immediate. In the days following the bombshell, CannTrust lost 60% of its value. Although it has since recouped some of that, the company is still trading at a near 50% discount to where it was two weeks ago. Year to date, the stock is down 41%, and if you bought at or near its yearly high, you are currently sitting on losses of approximately 70%.

The knee-jerk reaction for current shareholders is to do one of two things: sell their position or average down. Neither is a good strategy. It is best for shareholders to wait it out and see what happens. At the moment, there are too many uncertainties.

Health Canada is expected to complete its investigation any day now. Will CannTrust lose its production licence? It is a reality that is becoming increasingly possible. Given the industry hype, it is the perfect time for the Feds to make an example of a once highly respected company and set the tone that these types of actions will not be tolerated.

In this worst-case scenario, its stock may plummet further.

On the flip side, the company may escape with a fine and the requirement that it destroy its current cannabis stockpile. This would be a big hit to financials in the short term, but its long-term prospects would remain intact. Should this happen, its share price will no doubt rally.

If you were invested in the company, I assume that you have a higher risk profile than the average investor. The industry is very volatile and remains a speculative play. Given this, the best course of action for those with a greater risk profile is to [wait it out](#).

Don't act on rumour

What you should not do is act on rumour. There has been plenty of news lately. The company has

been accused of purposely lying to Health Canada officials, taking them on fake tours and setting up fake walls to hide their illegal operations.

There is also news that there is a white knight laying in the weeds, ready to make a takeover offer the company. A white knight might help spare the company from losing its licence should Health Canada drop the hammer.

All, part, or none of it may end up being the truth. Trading on rumour is no better than gambling and is one strategy the average investor is not likely to win.

Patience is key. Should Health Canada pull CannTrust's licence, I have no doubt that there is someone out there willing to make a takeover offer for the company. What a takeover price would look like is anyone's guess, but at this point, any news is speculation at best.

Should you buy the recent dip? It is not recommended. There are too many unknowns, and the risk just isn't worth the reward. Even if the company emerges with a best-case scenario, CannTrust's reputation is tarnished. It is unlikely that institutional investors will support the existing management team.

An overhaul is needed, and that comes with costs. At this point, the risk/reward profile is more attractive, and investors are best to direct their investment towards other industry players.

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