



Another Big Cannabis Company Just Got Into Trouble With a Regulator

Description

The cannabis industry has been a bit of a soap opera this month. From **Canopy Growth** Co-CEO Bruce Linton being [let go](#) to **CannTrust Holdings** (TSX:TRST)(NYSE:CTST) allegedly putting up fake walls and [misleading Health Canada](#) about where and how much pot it was growing, there's been no shortage of headlines recently. The problem is that the negative press has sent pot stocks into a bit of a tailspin and created a lot of instability along the way.

And this week, we got even more of it when we learned that U.S. operator **Curaleaf Holdings** ([CNSX:CURA](#)) received a warning letter from the Food and Drug Administration (FDA). The issue at hand is that the company has been making claims on its products that have been a bit extreme and perhaps even misleading.

While there have been studies showing CBD effective in helping with certain ailments, it has been far from conclusive. The only thing that's apparent from these studies is that there are still a lot of unknowns. Sample sizes need to be bigger, and testing needs to be a lot more thorough.

The acting FDA commissioner, Ned Sharpless, M.D., stated in a press release that "Selling unapproved products with unsubstantiated therapeutic claims — such as claims that CBD products can treat serious diseases and conditions — can put patients and consumers at risk by leading them to put off important medical care."

Some of the claims that were highlighted by the FDA included CBD being linked to effectively treating various diseases, such as Parkinson's and Alzheimer's, and suggesting that it could help prevent the spread of cancer cells.

While there have been studies to suggest there might be some positive impact from using CBD, any "links" have been far from strong. There's a lot of incomplete information relating to CBD, and that certainly does make it dangerous for patients that might look to these claims as proof that taking medical marijuana might not only be safe, but that it could help their existing conditions.

Trust is a big issue in the industry

News of the FDA warning letter couldn't come at a worse time for the industry. CannTrust has come under fire for misleading regulators in Canada and illegally growing marijuana in rooms that weren't yet licensed to do so. The company has been largely quiet on the issue, only saying that it would address the issues and find the "root causes" of the non-compliance.

In the meantime, the stock has been crashing this month, as investors have been dumping the stock and trying to salvage what's left of their investments. While the issue is not nearly as significant for Curaleaf, the stock did drop more than 7% on news of the FDA letter. The danger for the industry is that both CannTrust and Curaleaf highlight some very serious risks related to investing in cannabis today.

With the industry being a very young one, it's starting to show how much maturing it still needs to do. Companies have been focused on growth and padding their sales as quickly and by as much as possible. Unfortunately, that's led to Curaleaf and CannTrust cutting some corners along the way.

Bottom line

As lucrative as the industry's growth prospects may be, there's also significant risk involved with doing so. Pot stocks have been heavily overvalued for some time, and this might be the beginning of a much bigger sell-off in the industry.

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Date

2025/08/25

Date Created

2019/07/24

Author

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