



Short-Sellers Attack Canopy Growth (TSX:WEED) Stock and the Cannabis Industry

Description

As the markets hit new highs, it is natural for short-sellers to increase their positions. After all, the next bear market is always just around the corner. In the most recent TSX short report, cannabis stocks are among the most shorted stocks on the index.

Why is short-selling important? First, short-selling involves borrowing the shares at current market price with the intention of buying them back at a lower price. The shares are then returned to the lender. In essence, short-sellers are betting that the price of a stock will decline from the current market price.

The more a stock is shorted, the higher the cost of borrowing. As such, a high borrowing fee is also a bearish signal, as it is an indication that there are many short-sellers out there.

As of mid-July, there were two cannabis stocks among the top 10 most shorted stocks on the TSX — **Cronos Group** and **Canopy Growth**. At 24.2% of shares shorted, Cronos was the second-highest shorted stock on the TSX and Canopy came in at number six, with 19.1% of its shares shorted. Canopy also has the unfortunate distinction of being the most expensive to short with an annualized borrowing fee of 25.6%.

It is not surprising to see pot stocks among the index's most shorted stocks. Valuations are high, and the recent news about **CannTrust** (TSX:TRST)(NYSE:CTST) has weighed heavily on the sector. CannTrust was one the industry's most respected companies, and to see [its fall from grace](#) has left many investors skittish.

Every year, a report is produced that analyzes the corporate governance structure of publicly listed companies. Not surprisingly, all marijuana companies [scored very poorly](#) and exhibited common challenges, such as lack of transparency. For those who initially dismissed the report, the CannTrust situation is a wake-up call. It is also why the industry is struggling to gain legitimacy.

Although not among the top shorted stocks, **Aurora Cannabis** was among the top companies with the

largest increase in short positions. Aurora saw its short positions increase by 49% over last month. This is a massive jump and is indicative of a larger market trend.

Over the past month, the Canadian Marijuana Index has lost 35% of its value and has been in a steady downtrend. The trend accelerated on the back of CannTrust's illegal growing activities.

Industry leader Canopy Growth hasn't been immune to the recent downtrend. Its stock has dropped 30% over the past quarter and is down almost 10% in July.

Being the target of short-sellers is rarely an enjoyable position to be faced with. It results in fighting an uphill battle. Although there is always the [potential for a short squeeze](#) and outsized gains, there has been little to no positive news in the industry lately. There are even fears of oversupply.

Until positive sentiment returns and the fallout from CannTrust's situation is known, expect short-selling to exhibit further downward pressure.

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Date

2025/08/26

Date Created

2019/07/26

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