



It's IPO-Like: CannTrust Holdings (TSX:TRST) Could Triple or Fall to \$0 ... Should You Place Such a Bet?

Description

Speculating on [cannabis stocks](#) isn't for the faint of heart. If you're not used to double-digit moves in either direction, you could seriously get hurt by following the herd. Moreover, it's tough to form a sound investment thesis with the haze of uncertainty clouding the industry and the number of firms that have broken the rules set forth by Health Canada.

Who knows which company is illicitly growing cannabis in a secret room, as **CannTrust Holdings** (TSX:TRST)(NYSE:CTST) did, aggressively testing the boundaries of rules that don't yet have clear penalties attached to them.

In a way, the uncertain rules in the nascent cannabis is a calling to the unscrupulous folks who want to make a quick buck with little to no regard for ethics. We've seen conflict-of-interest-ridden acquisition activities, fraud allegations from short-sellers, some pretty funky accounting practices, shareholder-unfriendly dilutive activities, and the list goes on and on.

As CannTrust gets its penalty for its recent breach of trust, we'll likely have cannabis cultivators amp-up their compliance efforts, so they can avoid the catastrophic implosion suffered in CannTrust stock.

The question that investors have on their minds right now is, how severe will CannTrust's punishment be? And will the scandal stay in the memories of investors for as long as it did for Valeant Pharmaceuticals during its fall from grace?

As we learn more about CannTrust's penalty for non-compliance, we'll undoubtedly see double-digit single-day percentage moves, and if you're looking for a high-risk/high-reward play, CannTrust is a compelling play, especially for those long-term investors who want a cannabis stock without an absurd valuation.

In prior pieces, I've commented on how CannTrust's stock now trades at reasonable multiples, even with the risk of licence suspension (which I believe is quite low). While Health Canada does want to put its foot down and put a stop to cannabis firms operating at or around the borders of legality, they likely

also don't want to scare pot investors out of the sector entirely. That'd unfairly punish honest pot firms, and given the recent negative moves in the broader space, it seems as though CannTrust is seen as the bad apple that could spoil the bunch.

In any case, CannTrust is a speculative bet that I believe has a high chance of [correcting upwards](#) but also a low probability of causing investors to lose their entire investment. The worst-case scenario is severe, but I don't think it's as probable as recent moves in the stock seem to suggest.

The way I see it, CannTrust could double or triple if the outcome isn't as ugly as expected. But if Health Canada unleashes its fire and fury when doling out CannTrust's sentence, look out below.

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