



CannTrust Holdings (TSX:TRST) Stock Crashes: Is Any Marijuana Stock a Safe Buy Today?

Description

The pullback in the share prices of marijuana stocks has investors wondering if this is a good time to add [cannabis stocks](#) to their portfolios.

There is no shortage of pot stocks available in the market, from small newcomers to the larger established players. Getting the bet right, however, is no easy task, as investors have witnessed with the recent meltdown of **CannTrust Holdings** (TSX:TRST(NYSE:CTST)).

At the time of writing, CannTrust trades at \$2.90 per share compared to more than \$13 in March. The plunge is largely due to the company's troubles stemming from a Health Canada investigation that discovered production occurred in unlicensed facilities.

The government agency's findings became public July 8, sending CannTrust's stock price tumbling. The stock's slide picked up steam in recent days as more news came out, including allegations in a *Globe and Mail* story that the top executives of the company, including the chairman and CEO, had been informed last fall that plants were being grown in unlicensed rooms.

CannTrust announced July 11 that it would suspend all cannabis sales while it waits for Health Canada to complete its investigation. Health Canada could revoke CannTrust's license, which would essentially kill the company.

A fine of up to \$1 million is also an option. The company founder just resigned as chairman and the CEO is out of a job.

CannTrust isn't the only large player to run into issues regarding transparency. **Aphria** (TSX:APHA) got called out by a short-seller's investigation late last year regarding an acquisition that the report alleged was done at an extreme valuation to benefit people who had connections to the company.

Aphria's top management initially denied any wrongdoing, but an investigation launched by the board uncovered some disclosure issues, and Aphria had to significantly write down the value of the assets.

The co-founder and CEO left the company in January. Aphria trades at \$8 compared to \$21 last September.

In February, **Namaste Technologies**, a smaller firm that operates e-commerce sites in the sector, was hit by a scandal that resulted in the termination of its founder and CEO.

Once again, a short-seller report revealed evidence of what the Namaste board referred to as “self-dealing” and a “breach of fiduciary duty.” Namaste trades at \$0.50 per share compared to a 12-month high near \$4.

The largest surprise to hit the industry is arguably the recent firing of **Canopy Growth** founder, chairman, and co-CEO Bruce Linton. The company said no legal issues are at play. In this case the major shareholder, **Constellation Brands**, simply decided it was time for new leadership.

Reports suggest the company was losing patience with the ongoing losses at Canopy Growth as it scales up its operations and expands into new segments.

Constellation Brands made a \$5 billion investment in Canopy Growth last year at a price of about \$48 per share. Canopy Growth currently trades close to that price, but is down from \$69 near the end of April.

Should you buy marijuana stocks today?

One analyst recently called the industry “the wild west.” This is probably a fair description, and investors should expect ongoing volatility amid the rapid scaling of these companies to compete in such a new industry.

Despite the pullback in the share prices in the past month, the sector remains expensive. In the event the market starts to price these companies on traditional metrics, we could see significantly more downside before the dust settles.

The cannabis industry has huge potential and a handful of companies will eventually dominate the space. At this point, however, I would search for other investing opportunities that give you exposure to the upside without betting directly on the producers.

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