



Could Hexo Corp (TSX:HEXO) Be in Trouble With Regulators As Well?

Description

There's a lot of fear in the cannabis industry in the wake of the **CannTrust Holdings** [scandal](#). Issues relating to illegal growing there came out of nowhere and sent the stock crashing in just a matter of days.

Then came the news that cannabis giant **Curaleaf Holdings** in the U.S. was also getting into [trouble](#) with the Food and Drug Administration for making some aggressive claims.

These issues have caused a great deal of panic in the industry, and many pot stocks have been struggling over the past month as a result.

One company that's recently been the target of one short-seller is **Hexo Corp** ([TSX:HEXO](#))(NYSE:HEXO).

A recent report from The Friendly Bear claims that promotions run by the cannabis operator on **Snapchat** were "aggressive," suggesting that they could also run afoul with Health Canada. Using Snapchat is also popular among kids, and if true, that could lead to problems for Hexo.

Could Hexo be the next CannTrust?

The short-seller believes that Hexo could follow in the footsteps of CannTrust, losing a significant amount of its value as a result of the infraction.

However, it should be noted that what CannTrust is accused of doing is illegally growing marijuana, which is on a much different scale than simply promoting their products too aggressively or through the wrong channels.

In Hexo's situation, products wouldn't have to be held back to be tested to ensure they're in compliance with regulations. The company also isn't being alleged to have misled regulators with respect to how much cannabis it is producing and putting up fake walls to conceal its operations.

Compared to the CannTrust scandal, Hexo is a drop in the bucket. After all, advertisers pushing the limits happens in many industries, not just cannabis; suggesting that Hexo might see a similar drop in share price might therefore be an exaggeration, to say the least.

Health Canada hasn't indicated the existence of any problems involving Hexo. While it can be unnerving for investors of Hexo, ultimately this is just speculation by a short-seller.

We don't know whether these claims are valid, and so any concerns surrounding the company may be all for naught. The problem, however, is that if there was confirmation that Hexo was in violation of rules relating to advertising, the stock could go into a free fall very quickly.

Bottom line

It's a very risky time to be a cannabis investor. Everyone is on the lookout for which company could be the next one to run into regulatory issues, which means that even claims made by a short-seller could send investors into a panic.

The problem is that if investors don't act on the claims early enough, they could suffer more significant losses if the violations are confirmed to be true. However, if prove to be unfounded, the stock could get a big boost in price.

There's no way to know for sure — which is making investing in cannabis stocks even riskier today.

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