



## What CannTrust (TSX:TRST) Taught Us About the Cannabis Industry

### Description

In the wake of the most recent scandal within the marijuana industry, **CannTrust** (TSX:TRST)(NYSE:CTST) has become a headline focus over the last two weeks.

The company is [under fire](#) after Health Canada's audit, where they discovered five unlicensed rooms in its Niagara Facility where CannTrust had been growing marijuana.

The company now has a significant quantity of its cannabis inventory on hold while Health Canada probes further into the matter and reviews whether CannTrust should lose its license. Similar to a series of falling dominos, the bad news broke out again and again, sending shares tumbling.

Company CEO Peter Aceto was forced to step down after admitting that he knew the rooms were unlicensed. In fact, employees claim that one of Aceto's promotional videos include him standing in front of one of the unlicensed rooms. The interim CEO claims Aceto kept the board completely in the dark.

Now, CannTrust has hired a financial advisor to look into a potential sale and "other strategic alternatives" as Health Canada continues their investigation into the illegal pot growing.

At this point, however, a sale appears uncertain, as the company is still under review and could lose its license. It's also become the focus of several class-action lawsuits for allegedly violating provincial securities laws.

Many investors and analysts have been watching these events closely. Since the news broke, the stock has dropped a whopping 51% as of writing. I'm not going to get into whether you should buy this stock or not, as there are opinions on both sides of the matter.

Instead, let's take a quick look at what we've learned and how it might impact your future investments in the marijuana industry.

## Health Canada is watching

I don't think people realized before CannTrust just how involved Health Canada is with ongoing marijuana growth operations — but of course it is.

This is a new industry, and a volatile and controversial one at that. As such, everything must be done by the book. If not, Health Canada seems to be on the side of using companies as an example rather than offering a slap on the wrist.

While it's all speculation at this point, things don't bode well for CannTrust once Health Canada is involved.

## Companies can collapse overnight

At its peak, CannTrust traded at \$15.50. To put that into perspective, even **Aurora Cannabis** trades at about half that as of writing. When the marijuana industry came crashing down, so did CannTrust, to about \$6.50 per share.

While that was already bad news, after the Health Canada news came out, things went from bad to worse. The company now trades at half that price as of writing.

This is all *before* any concrete news has emerged surrounding a decision over the future of CannTrust. Sure, the CEO is gone, and the company admitted to the wrongdoing, but that isn't business related, frankly.

Should CannTrust merely get that slap on the wrist, the stock will likely continue as it normally does.

But if it does get its license revoked, or really any type of penalization, this stock could continue dropping even lower — that is, unless it's one of the larger marijuana companies out there.

Right now, CannTrust is looking to potentially sell the company. Honestly, compared to other scandals in the same industry, it's not that bad.

**Aphria** had a scandal that was far worse, yet its shares are still hanging around the \$7.25 range as of writing, and the company is slowly [making a comeback](#).

So if you're looking to invest in a company without the risk of that company going under, it's probably best to pick up a marijuana stock with a larger market capitalization rate. Given that the shares are still slumped, now is the time.

That said, I refer to my earlier point: I'm not telling you whether to CannTrust right now, but there are certainly some things to mull over when considering the volatile cannabis industry.

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