



CannTrust (TSX:TRST): Next Stop \$0?

Description

It's going to be tough for **CannTrust Holdings** (TSX:TRST)(NYSE:CTST) to win back the [trust](#) of investors after what it pulled.

The company put its investors at risk when it decided to follow through with the idea of illicitly growing cannabis in secret rooms. Now that the secret is out, the stock has blown up in the portfolios of investors. After plunging more than 80%, is there any salvage value to be had from the stock? Or will the stock tread water until it ultimately goes under?

If such an implosion happened to CannTrust investors, it could technically happen to anybody invested in the nascent space. We've already seen a few firms get slapped on the wrist from stepping offside with promos that received disapproval from federal regulators. Moving into a grey area and following through with illegal activities knowingly are two different cups of tea entirely.

While the intent of the managers at CannTrust is still up for debate, one could argue that negligence with regards to non-compliance is almost as bad as intentionally producing illegal weed in secret. So, it's a lose-lose proposition, and that's why investors have opted to enjoy the show comfortably from the sidelines, as they learn more about the fiasco that continues to unfold.

Indeed, CannTrust's fate lies in the hands of regulators, which will dole out a punishment that could potentially send shivers down the spines of cannabis investors.

Fellow Fool contributor [Debra Ray](#) recently wrote a piece highlighting the possibility of cartels funding TSX-traded pot stocks like CannTrust. It was a very alarming piece, to say the least, but it was definitely food for thought, especially for those investors who prefer lesser-known up-and-coming cannabis players over well-established behemoths that already have trusted investors standing in their corner.

“It wouldn’t be a surprise to hear that stocks like **Canopy Growth**, **Aurora Cannabis**, and CannTrust have been cleaning decades of illegally generated profits from black-market marijuana sales. Many of them finance acquisitions and growth through cash from operations. KPMG has already withdrawn its financial audits, admitting unreliability.” Ray said.

We already know of the funky accounting practices in the crazy world of marijuana, but I don’t think a bad apple like CannTrust should be mentioned alongside Canopy or Aurora, two of the most trusted players in the space that have since bolstered their compliance efforts.

CannTrust may have navigated into the no-fly zone, but it’s quite a step to bring up illegal money laundering and the involvement of the cartel when it comes to the broader industry as a whole. I would be surprised if what Ray says comes to be.

As to ongoing CannTrust investigations, the stock could undoubtedly continue free falling to \$0, but if it could also double or triple over a very short time span should investigations not yield anything sinister. Moreover, Health Canada may take it lightly when it comes to CannTrust’s punishment, and if that’s the case, we could be in for quite the upside correction.

If you’re comfortable betting on the outcome of a binary event, CannTrust may be the play you’re looking for.

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joefrenette

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