



Fraud Case Rocks the Cannabis Industry: Buyer Beware!

Description

The legal cannabis industry boomed after Canada decided to legalize recreational weed sales in October last year. In anticipation of the boost in sales, [cannabis stocks skyrocketed](#) across the board.

Early investors for the longstanding cannabis producers saw massive returns on their investments. However, it turns out the bed of roses did not come without its thorns.

Some of the largest and most successful weed companies in the world are based in Canada. The performances of weed stocks have soared except for a few setbacks.

The **CannTrust** (TSX:TRST)(NYSE:CTST) scandal gave the pot industry [a reality check](#) and shook investor trust in the marijuana industry. After CannTrust was caught with illegal marijuana, the stock went into a tailspin and hasn't recovered; the company's license to sell marijuana has been suspended.

When it seemed like everything was back on track, another scandal has struck the industry.

The curious case of Canada Cannabis Corp.

The legal weed industry has been around for some time now, but it is still a new industry. When the industry was taking baby steps, January 2014 saw a scheme in the works. Benjamin Ward, Peter Strang, and Silvio Serrano made statements about a pot company called Canada Cannabis Corp. in a briefing for prospective investors.

The three individuals clearly understood the massive potential for the legal weed industry, telling investors their company was not yet incorporated, but that it was in the works.

The three claimed that CCC had acquired a 45% stake in Growlite Canada, a horticultural lighting firm. Ward was the chief executive and a director, while Serrano and Strang were vice presidents of the firm.

Between January 2014 and August 2016, CCC allegedly raised \$3.2 million and US\$8.8 million from over 120 investors. It wasn't surprising to see so many people get on board with a pot company that

was not even incorporated. Investors looking to make quick profits jumped at the opportunity and went all-in.

The allegations of fraud were brought against the three individuals and CCC for allegedly misusing investor funds and siphoning off more than \$3 million from CCC. Serrano and company used those funds to make a loan to a company owned by Serrano.

By the fall of 2016, all three resigned from CCC and left a company devoid of all investor funds. The company did not even engage in any production or distribution of cannabis.

The Ontario Securities Commission has accused these three individuals of defrauding investors of more than \$10 million. While the allegations have not yet been proven, there is a hearing scheduled for September 30, 2019.

CCC fraud is another reality check for investors

The Ontario Securities Commission pointed out investors who believe they can earn quick and profitable returns from investments in this industry. These investments can be speculative, and the cost of pot companies is based more on their potential success rather than their current performance.

This case of fraud is not just a wake-up call for investors who have lost their money to CCC. The situation should make *any* investor looking to profit from the cannabis industry wary.

The aftermath of the CannTrust scandal is ongoing. Several compliance breaches by the company mean that CannTrust is in serious trouble with regulatory authorities. The company is awaiting the verdict of Health Canada.

Foolish takeaway

The legal cannabis industry is one of the most promising prospects for investors right now. Companies in this industry rely primarily on future success to lure investors on to the bandwagon. Many of these companies have indeed delivered massive returns on investments for those who trusted them.

It boils down to investors conducting their due diligence to determine whether a company is a good investment. Investors should be cautious with where they focus their resources and how they diversify their portfolios.

Investors should focus on companies that generate profits. Don't be fooled by companies that offer promises rather than actual operations — or even licenses for that matter.

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