The Risks of Cannabis 2.0

Description

Cannabis producer **Canopy Growth** (TSX:WEED)(NYSE:CGC) has been taking a real hammering of late, with the weed stock down almost 8% last week. In fact, the stock is down by more than half its yearlong high, showing just how tough the last 12 months have been for even the big-name cannabis producers.

But just what's behind the latest fall, and should current and would-be investors be concerned?

Investors can expect more "up in smoke" headlines

The latest bump in the road for pot stocks is the revelation that vaping might not be great for one's health after all. Viewed as a safer alternative to smoking actual cigarettes, vaping has become a past-time in its own right, and cannabis companies have been getting invested in the craze of late.

However, after a spate of warnings and even outright bans in places, every dollar spent on the vaping industry now appears to be a dollar burned.

The legal recreational marijuana sector has had a tough year of it, with everything from the buzzkill that was the actual legalization itself to the **CannTrust** debacle knocking value off the top pot stocks.

Although the sector still has enough momentum to attract traders, the market sentiment compared to this time last year is significantly less bullish.

Marijuana bulls have been gearing up for Cannabis 2.0, an effective reboot of the legal weed sector that will see a range of edibles, vape products, oils, and drinks will become legal for recreational use October 17.

However, aside from the health and safety issues involved with the careful marketing of products such as gummies, capturing market share from the black market is likely to be an ongoing bugbear.

More like cannabis two-point-uh-oh

For example, the *Wall Street Journal* has reported that digital platforms including **Instagram**, **Amazon** and **Facebook**'s Marketplace have been potentially enabling black market trading of cannabis oils and THC-infused vaping products.

The anti-vaping movement is gathering momentum, with companies like **Altria** losing value from their espousal of the craze. While Altria's standing in the well-established and resilient tobacco space may keep the stock covered, can the same be said for invested cannabis companies?

Given the yawning hole that is the black market and an opposing legal market that has yet to stabilize, stocks like Canopy Growth could suffer if Cannabis 2.0 doesn't pan out the way the market needs it to.

Still, as per **Deloitte**'s appraisal of the rebooted cannabis industry, $2.7 billion a year is up for grabs from the legalization expansion, with vaping forming only a portion of that expected growth.

This means that even without the vaping segment, a considerable amount of cash could be made by companies such as Canopy Growth, with cannabis-infused chocolates and drinks likely to prove popular.

The bottom line

Investors should hang on to long positions in Canopy Growth and remind themselves of that wait-and-see mindset throughout Cannabis 2.0.

While vaping health concerns and an established black market are likely to continue having a dampening effect on exposed cannabis companies, other cannabis asset types coming online in October could help buoy the sector.

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