



When Can Canadians Safely Buy CannTrust (TSX:TRST) Stock Again?

Description

Cannabis investors are valuing **CannTrust Holdings** (TSX:TRST)(NYSE:CTST) stock more highly since reporting the destruction of \$77 million worth of inventory and biological assets.

The stock jumped in price nicely from \$1.20 per share to \$1.82 per share at writing — a market move resulting from shareholder optimism that CannTrust was one step closer to meeting Health Canada requirements for license reinstatement.

This trading activity is a positive step in the right direction, but may still be too soon for investors to pick up shares. Legal problems create volatility, and the stock price could easily rise to only fall drastically once again. Shareholders in **Tesla** ([NASDAQ:TSLA](#)) experienced this last year.

Tesla is an excellent example of a stock experiencing frequent volatile price moves following regulatory investigations. In 2018, Elon Musk, the legendary founder, started behaving erratically and posting offensive tweets. Musk even smoked pot on a public radio show; a video of the event immediately surfaced.

Tesla still hasn't recovered

The company suffered a U.S. Securities and Exchange Commission investigation as a result. During this time, the stock would undergo significant \$100 price moves within one to two weeks.

The Tesla board of directors and the SEC eventually reached an agreement to allow Elon Musk to stay on as CEO as long as he stepped down as Chairman. Tesla stock never fully recovered to the over \$300 share price at which the stock traded before the controversies, which has many implications for the recent price jump on CannTrust stock.

CannTrust has even more severe issues than Tesla. Thus, it may take years before the stock can fully rebound. Getting licensing back from Health Canada is merely step one. The corporate leadership also must regain the faith of shareholders and the public, and the company's brand image may never recover.

CannTrust's stock price may do the time for these crimes

CannTrust was safely trading at just under \$13 per share when Health Canada inspectors found [secret grow rooms](#) in some of CannTrust's facilities. CannTrust has since lost almost all of its value.

Health Canada responded by revoking CannTrust licenses. The Alberta Gaming Liquor and Cannabis Commission returned \$1.3 million worth of product to CannTrust. The Ontario government also returned cannabis products worth \$2.9 million.

These are expensive hits for a growing marijuana company at a critical turning point in market competition. Moreover, former CEO Peter Aceto and then-president Eric Paul both lost their jobs after the scandal came to light.

Ontario Securities Commission also began investigating fraud and insider trading at the corporation and approved an insider cease trade order.

They likely won't go to jail, however, as many black market drug dealers have especially with the Canadian government's preference to forgive prior marijuana-related offences.

Pot sector growing pains pose a security issue

Cannabis legalization is bound to go through [more growing pains](#) due to the risk of criminals selecting into the young legal cannabis market. Particularly for the United States at the border of Mexico, where crime organizations go to great lengths to bring drugs through Mexico, marijuana legalization presents national security challenges.

In a Brookings panel discussion, *Anti-money laundering: Are we where we want to be?*, Juan Zarate, a former National Security Advisor during the Bush administration admitted that cannabis legalization risked giving criminal networks economic power: "If I'm the bad guy, I'm going to find a way to blend my operations and network in through what is considered legal and otherwise legitimate networks."

Luckily, criminal organizations are not the only parties excited for cannabis legalization. Marijuana advocates and entrepreneurs span from drug dealers to users and nutritionists. This competition will help to curb the influence of criminal activity within the legal cannabis space.

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Date

2025/08/26

Date Created

2019/10/16

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