Smoked! Govt Finally Admits No Marijuana Legalization by July

written by Peter Clausi | February 12, 2018

The cannabis market continues to be a trader's market. It's not for investors. The difference is the inexplicable random gyrations in the trading of the public marijuana companies' shares. Up three dollars, down two, up four, down two, then sideways… that's the average weekly chart in the cannabis space.

It's a strange market. Good news can send share prices down. News that should crater the stock instead pushes it up. It brings back memories of the internet boom in the late 1990's.

Canopy Growth Corporation (TSX: WEED) is the largest cannabis company in Canada. Its current market cap is $5.5Billion, with close to 200,000,000 shares outstanding. Its year high was $44 a share, but those same shares can be bought today for around $28. That's a $14 per share difference, and that share price difference represents about $2.8Billion in market cap difference. But the company is substantially the same – that $2.8B market cap delta was not driven by a fundamental change in anything except investor sentiment. Value created and destroyed by mere perception, not facts. And that, is a trader's market.

If further proof is needed, look at Aurora Cannabis Inc. (TSX: ACB | OTCQX: ACBFF). It's one of our long-term favourites to survive the inevitable carnage in this sector. Its low over the past 12 months was $1.90. One hundred and ninety pennies. Today, it's trading about $11, after stretching to hit a high of $15.20. With 470M shares out, the market perceives Aurora having created about $4.7B of value over the past 12 months. Not even Aladdin with his magic lamp could do that.

The main reason for the irrational exuberance (thank you Alan Greenspan) is the federal government's campaign promise to decriminalize cannabis. Investors know the medical market is limited in size, and the real $$$ will be in the recreational space, if it ever happens. Almost everyone takes it for granted that decrim will happen, on schedule, on July 1, 2018, despite the well-known fact a politician on a campaign trail makes more empty promises than does Harold Hill.

Also take into account the potential size of the market. Don't trust the numbers from people in the market who have a clear vested interest in a huge number. Instead, look to independent data sources, such as the survey of 1,500 Canadians conducted by Abacus Data on behalf of *Maclean's* as part of The Canada Project. It found that 84 per cent of respondents over 18 *never* smoke marijuana, and of the 16 per cent that do, daily users amount to only 5 per cent, and 3 per cent say they use a few times a week.

5 per cent of 32 million Canadians is 1.6M daily users. That sounds like a lot, but consider there are 89 licenced producers with many more applications in the pipeline. That's not a lot of users to spread around, and it gets worse when you consider that taxation and price controls have not yet been finalized. For many of the LP's, the only end game will be consolidation or bankruptcy.

Public consultation by the feds only closed three weeks ago on January 20, 2018. The infrastructure issues are so deep, so broad, so regulated by at least three other levels of government, that there is no way decrim can be implemented on the Liberals' schedule.

We've been warning about this since the Liberals started promising in 2014. This will be the fourth year that we've

warned investors not to trust the government. Every time we've pointed this out, traders have objected: "The Liberals promised it and the govt needs the tax revenue. *Of course* cannabis will be decriminalized."

The Senate has already indicated it will not simply accept the Liberals' legislation, and there are still the persistent barriers created by international treaties like the Single Convention that need to be overcome. Even if those huge challenges are overcome, the implementation of the legislation requires a previously unheard-of level of co-operation at the municipal level, across Canada, across ten provinces and three territories.

But the federal government just told the market, NO. The first paragraph from an article in last week's Globe and Mail summarizes the facts: "Canadians will have to wait until late in the summer before they will be able to legally consume cannabis under a new timeline laid out by the federal government – even if the Senate votes in favour of the legislation by May or June."

In a slippery bit of news that fell sideways into the media, Health Minister Ginette Petitpas Taylor told certain members of the Senate that the feds will wait 8 to 12 weeks after the legislation is passed (if it ever is passed) before actually decriminalizing cannabis, to give provinces and municipalities the time to create an implementation structure. If the legislation is passed for July 1/18, that means the earliest you can buy weed legally would be for your Thanksgiving party. This dovetails with our warnings that the government's timeline was impossible (see for example our detailed article from Sept/17).

That interim period is important. It matters because it negatively impacts cash flow. It negatively impacts balance

sheets. It impacts business plans and human resources decisions. And those impacts will play out in the market. The market is always wrong in the short term and right in the long term.

If you're looking for comfort, the Liberals are not the place to look for it. How about this recent blumphus from Public Safety Minister Ralph Goodale: "Our goal is this summer in an orderly fashion with all the pieces sequenced in the right order so that they are effective." What does that even mean?

So what to do. One, be realistic. Recognize the reality of the real timetable for decrim. You will not be able to legally buy marijuana outside of the medical market on July 2, 2018. Second, avoid business plans whose survival depends on decrim happening at all. Third, avoid business plans whose survival depends on decrim happening in 2018. Fourth, be a nimble trader, not an investor. Wait to be an investor after the cannabis market has its inevitable severe correction.

Or, you can believe the government's election promise.