

Investors Lose Billions with Canadian Cannabis

Caleb McMillan :: 2022-11-22



Investors have lost billions investing in Canadian [cannabis](#). That's the latest data collected by the law firm Miller Thomson.

Of the total 183 publicly traded [licensed cannabis](#) producers, they collectively lost \$131 billion.

Or, as one Redditor put it,

High quality marijuana cost \$7.69 per gram.

It's estimated that the average [joint](#) has 0.32 grams of marijuana in them.

So one [joint](#) should be around \$2.46.

Therefore, \$131 billion could purchase 53,252,032,520 joints.

Canada's population is 38.25 million.

So each Canadian could have gotten 1,392 joints instead of investing in cannabis companies. That's damn near 4 joints a day for an entire year. (Even a leap year)

u/GazelleOk5652

Or, to paraphrase a lawyer from the law firm, it's akin to each investor losing \$43,000.

How Could Investors Lose Billions with Canadian Cannabis?



How could investors lose billions with Canadian cannabis? The writing has been on the wall for a while.

First, let's look at the macros. Instead of relying on the old, tried and tested methods of balance sheets, revenues, assets, equity, net income and profit – Canada's large cannabis producers focused on market value.

In 2018, for example, [Aurora](#) had a \$7.4 billion valuation. When you consider Aurora's 2018 earnings before interest, taxes, depreciation, and amortization, that valuation was 28 times higher than it should have been.

And they're not the only ones. [Canopy Growth](#) burns through money. Neither LP has ever had positive cash flow.

People haven't been investing in Canada's cannabis companies. They've been gambling. Or rather, donating their income so overly packaged, sterile cannabis can sit in government distribution centres ready to be shipped to private retailers.

Investors have lost billions investing in Canadian cannabis because it was never an investment, to begin with.

There is a difference between the modern stock market casino and the traditional role of the stock market that facilitated capital investment.

It is like the difference between canned spam and a grass-fed ribeye steak. Both are technically meat, but one is superior to the other.

Blame the Black Market!



Have investors lost billions investing in Canadian cannabis? Of course, we can't blame *the system*. The [black market](#) must be at fault!

Many retail operators have opened and shut their doors in Canada's legal market. They played by the rules, applied for all the licences, dotted their i's and paid all the fees and taxes.

But the government didn't live up to its end of the bargain. One arm of the government was busy taxing and regulating the legal retailers with zeal. While the other arm haphazardly and incompetently enforced shutting down the illicit sector.

According to the law firm behind the latest numbers, "It's an industry that has been created by the Canadian government and frankly set up to fail."

In looking for someone to blame, governments and their cronies have no problem throwing [medical cannabis](#) growers under the bus.

Many medical cannabis growers have licenses for hundreds of plants. They'll grow for themselves and others who have a medical license. Often, they'll share their growing space with other medical growers.

But even a spokesperson for the law firm Miller Thomson couldn't help but speculate medical growers divert their production to the black market.

This belief was widespread (and discredited) during the *Allard* trial, but, as the saying goes, if you repeat a lie often enough, people will believe it.

And now, [Health Canada](#) is gearing up for another showdown.

Soon, [they'll argue](#) that these medical growers and designated licenses don't need to exist. That [recreational legalization](#) is sufficient, and they can legally shut down the medical cannabis program in Canada.

Could the Cannabis Act Review Fix Everything?



The long overdue review of the Cannabis Act is underway. But even then, it's supposed to take up to 18 months before completion.

Until then, investors have plenty of time to lose billions more with Canadian cannabis.

All of the fundamentals regarding the large [licensed producers](#) have stayed the same. If anything, they're using news about [German](#) and other [European](#) legalization schemes to inflate their already inflated stock prices.

The small-to-medium producers suffering from excessive taxes and regulations won't likely survive the next two years of the government's review process.

Additionally, retailers are falling behind too. As one near-bankrupt retailer told [CTV](#), "I got screwed by the government 100 per cent."

It shouldn't be surprising that [a government plagued by scandals and incompetency](#) couldn't even manage to legalize cannabis effectively.

Only governments could lose money selling drugs.

How Can Investors Make Billions with Canadian Cannabis?



Investors have lost billions investing in Canadian cannabis. But how could they recover?

First, it's unlikely to happen. Canada's Laurentian Elite prefers corporate conglomerates to a network of small businesses.

For example, name a single prime minister in the last four decades that hasn't been a stooge of the Desmarais family and the Power Corporation.

So long as cannabis legalization takes a backseat to "public health and safety," the viability of a legal industry is contingent on what some bureaucrat thinks instead of what the consumer wants.

The answer is simple enough. But the odds of it happening in Canada are nil, which is a shame because it is a simple answer. Just a series of three concrete steps.

1. Eliminate red tape, excise taxes, provincial distributors, government mark-ups and fees, and every single regulation on "public health and safety."
2. Cannabis pardons across the board. A former criminal record shouldn't preclude you from owning a cannabis business.
3. Expand the medical cannabis program, and allow doctors to prescribe cannabis rather than "authorize" it while increasing the number of plants per patient and designated growers.

The illicit market competing with the legal market is not the issue. The cannabis market is not open and free enough to incentivize illegal actors from entering the legal regime.

You can either pay all this money for licenses and get regulated to death by government bureaucrats while slowly but consistently losing money to the underground competition.

Or you can risk fines and imprisonment but remain profitable. The old "if you can't beat them, join them" idiom.

Free markets will always overpower the tastes and wishes of government bureaucrats. If you're investing in Canadian cannabis, you're best to keep this lesson in mind.

Footnote(s)

<https://www.ctvnews.ca/canada/canadians-have-lost-more-than-131-billion-investing-in-cannabis-companies-firm-1.6156722>

https://www.reddit.com/r/wallstreetbets/comments/yya3vy/canadians_have_lost_more_than_131_billion/