



Investing in **cannabis**

A new look at the marijuana market

By **Annelise Kelly**

Cannabis is no longer stuck in the counter-culture closet.

In 2018, the North American cannabis market reaped over \$10 billion in investments. North American public companies raised \$394.1 million in January 2019 alone. There are now 33 states where medical marijuana is legal, and 10 states have legalized recreational use.

Gallup has found that 66 percent of Americans support federal legalization of recreational cannabis.

Around the globe, over 30 countries have legalized medical cannabis, and in 2018 Canada legalized recreational use.

With two new bills introduced at the federal level in 2019, President Trump approving hemp and hemp-based cannabidiol in the 2018 farm bill, and FDA approval of its first cannabis-derived drug, big changes are predicted.

“It’s looking plausible there could be some kind of federal legalization of cannabis in the next year or two,” says David Abernathy, vice president of data and government affairs at

The Arcview Group, a cannabis investing network and market research firm. “If that happens, it will really, really change the cannabis market and spur an unbelievable amount of investment and growth.”

Charles Aloviseti, partner at Vicente Sederberg, a national marijuana law firm, observes, “We’re getting calls from professional investors who wouldn’t have called us three years ago.”

There are concrete changes in the cannabis marketplace.

“Two years ago there were no U.S. Nasdaq or NYSE companies (in

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cannabis). Now you're getting access to true exchange listed stocks," says Morgan Paxhia, managing director at Poseidon Asset Management, a cannabis investment company. He notes the advantages. "For average investors, there's better pricing, it's a better market, more scrutiny for good corporate governance. They have to demonstrate a good board, good controls, they have to be audited."

Adds Aloviseti: "We're seeing Fortune 500 companies making plays in Canada where it's fully legal. There's acceleration in growth, raising larger dollar amounts from more sophisticated investors. Alcohol and tobacco companies are making Canadian investments, so they are ready to expand as it becomes legal in the U.S."

However, even those in the thick of this emerging industry preach caution, education and due diligence.

"My big caveat is there's a lot of hype around the sector," says Aloviseti. "You see people raise a lot of money around significant valuations, but a lot is speculative. All these investments are pretty risky—plus there are a lot of regulatory hurdles."

Other concerns: the huge numbers and high growth attract the inexperienced and unscrupulous. Businesses are focused on expansion, not revenue. Legal risks persist under federal prohibition.

It's also unpredictable. Oregon, three years into its recreational program, has a huge surplus, causing prices to drop by half, according to Oregon Public Broadcasting. Legalizing recreational weed caused a significant, unanticipated drop

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in California sales, according to an Arcview report.

Curious investors can invest in public or private companies. Private companies are the arena of accredited investors, who demonstrate high net worth. The non-accredited can invest in public companies traded on the stock exchanges.

Regardless of where you invest, Abernathy urges caution. “There’s been very high volatility,” he

says. “You shouldn’t put all your retirement money in cannabis, but if you are looking for a higher risk category it’s an option worth exploring.”

All sources concur that education is essential. “You need to do your homework before you invest,” says Aloviseti. “One of most important things is double checking the management team. You want people who’ve been successful both inside and outside the cannabis sector.”

Before investing in a company, Abernathy suggests looking into their track record of performance. “Look for news stories about them, for any material they publish,” he says. “Then importantly, get a basic understanding of the cannabis industry, which is quite complex, especially in the U.S.”

“It’s such a state-by-state industry,” says Aloviseti, so it’s crucial to consult experts in the market where you are investing. He also advises consulting a lawyer to understand federal ramifications.

Resources abound. “There’s a number of companies putting out reports. Read one of these primers to give you the lay of the land, then talk to someone in the know,” Aloviseti advises.

“I recommend taking a look at our summary, *The State of Legal Marijuana Markets*,” says Arcview’s Abernathy. “It covers state by state, province by province, and country by country. Our free executive summaries offer an understanding of the very nuanced cannabis market. Also, there are more and more conferences--quite a few good ones that offer a lot of really great content.”

Finally, says Paxhia, while there’s a sense of urgency to invest, take time to understand the market.

“This is a very exciting time period,” he concludes. “But remind yourself what Warren Buffet says; he only invests in business he understands. He does his due diligence; he understands what he’s buying.” >

