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Smoking out the right way to invest in the marijuana movement

Advisers keeping their distance from high-flying pot stocks

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By Jeff Benjamin

10 Shares





A public filing on Monday by cannabis social-networking company MassRoots Inc., which hopes to sell \$6.5 million worth of shares and warrants, could move cannabis investing another step toward the mainstream.

But, so far, most financial advisers are not biting.

“It has too much to do with emotions and almost nothing to do with valuations,” said George Gagliardi, owner of Coromandel Wealth Management.

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MassRoots, which has been described as akin to Facebook for cannabis fans, is already trading over the counter, but hopes to become the first cannabis-related company to trade on the Nasdaq exchange, **according to the filing.**

The closely held MassRoots shares, trading under the ticker symbol MSRT, are up 16.36% since the start of the year. That compares to a 4.73% decline for comparable software-

application companies, and a gain of 81 basis points for the S&P 500 Index over the same period.

Arthur Ebersole, owner of Ebersole Financial, is only mildly impressed with the short-term performance of a company that is operating in an area that is still illegal at the federal level.

“I've had some inquiries from some clients about investing in cannabis companies, but it's still on my list of wait and see what happens,” he said. “It's a tricky situation because marijuana is not yet legal at the federal level.”

So far, 40 states have legalized the use of medical marijuana in some form, and four have legalized marijuana for recreational use.

Even though the Department of Justice has extended for a second year through the end of 2016 a **“cease fire” of federal marijuana-law enforcement over state laws**, those states are still in technical violation of federal law. That is the kind of reality that has a lot of financial advisers placing pot stocks on the extreme end of the risk curve.

“If somebody were doing something with these companies as part of a microcap portfolio, I might take a look at it. But it's not something I would want to spend a lot of time following,” said Mr. Gagliardi. “I guess I could see somebody investing a half a percent of a portfolio and just crossing your fingers.”

Ditto for Kashif Amed, president of American Private Wealth, who said the tentative legality status is a big deal.

“I would not advise clients to invest in something that has questionable legitimacy and legality,” he said. “People seem to forget that it is still illegal at the federal level. They have simply chosen to look the other way.”

The legality part gets tricky for some companies, including MassRoots, which doesn't actually touch marijuana, but it does accept advertising revenues from businesses that do, which could hinder its ability to become listed on Nasdaq.

Meanwhile, it is easy to understand how some could get caught up in the pot-investing

buzz.

There are literally dozens of **cannabis-related companies already trading** over the counter, and many of them share similarly volatile stock-price histories.

Consider, GrowBlox Sciences Inc. (BGLX), which is up 48.15% this year, to 19 cents, following a 63.5% drop last year and a 29.41% drop in 2014.

Cannavest Corp. (CANV) shares are up 72.7% this year, to 46 cents, after falling 89.81% last year and dropping 91.72% in 2014.

Then there's Cannabis Sativa Inc. (CBDS), which is up 192.86%, at \$2.14, following an 89.86% drop last year and a gain of 820% in 2014.

The volatility speaks for itself, which is why most financial advisers still see the cannabis space as high-risk noise to be tested at the margins, if at all.

“It seems clear that cannabis is on the way to becoming legal across the country, either for medical or recreational use,” said Chris Chen, a wealth strategist at Insight Financial Strategists.

“However, given that there are still a number of legal uncertainties regarding cannabis, an investment in that field would be classified as aggressive,” he added. “If a client was interested, I would want them to invest solely in legal businesses and with a small percentage of assets.”



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