

Advisers struggle with the highs and lows of marijuana investing

Now that it has become the investment trend du jour, advisers are cautioning clients not to expect to get rich quick on a product that is still illegal at the federal level



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By **Jeff Benjamin**

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Shares



As marijuana moves closer to the mainstream, with medicinal use now legal in 47 states and nine states plus the District of Columbia allowing recreational use, financial advisers are increasingly being asked by clients about **investment opportunities**.

The potential for marijuana investing was boosted by recent reports that both **Coca-Cola** and the **owner of Corona beer** are eyeing a toehold in the space.

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what you would be willing to lose on a trip to Vegas," said Eric Gabor, owner of Eagle Grove Advisors.

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"It appears this will be the hot trend everyone talks about this year during Thanksgiving," he added.

Other advisers, meanwhile, see potential upside for long-term investment growth if the investors are willing to be patient.

"Every time another state legalizes it, clients will start asking how they can invest in marijuana," said Reshell Smith, owner of AMES Financial Solutions.

Instead of steering clients away from cannabis investing opportunities, Ms. Smith advises they proceed with caution and not to expect to get rich overnight.

At issue for a lot of advisers is that beyond the various claims of medicinal benefits, marijuana also carries the stigma and risks associated with a recreational drug that is **still illegal at the federal level**.

Even as Canada's move to legalize marijuana for recreational use adds momentum toward an expanding commercial industry, the category is still small, fragmented and volatile from an investment perspective.

With few ways to invest in the cannabis industry, the limited number of entry points have become known for extreme volatility.

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about the company's growth prospects, the stock price briefly touched an all-time high of \$300 per share, nearly double its Tuesday closing price.



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Tilray closed Wednesday at \$214, and at mid-day Thursday was trading at \$169, down 21% for the day.

Also caught up in the cannabis-

investing buzz was **ETFMG Alternative Harvest (MJ)**, a \$560 million ETF that is considered the only public fund providing concentrated exposure to the marijuana industry.

MJ shares opened Monday at \$37.02, reached a mid-day peak on Tuesday of \$41.47, saw a peak-to-trough swing on Wednesday of \$45.24 to \$38.80, and by mid-day Thursday was trading around \$42.

"It's a relatively concentrated fund, with more than half the assets invested in the top 10 holdings," said Todd Rosenbluth, director of mutual fund and ETF research at CFRA.

"Like other thematic ETFs, the performance isn't going to be in a straight line," he said.

Efforts to provide broad investor access to the marijuana industry have been nothing if not creative.

Two years ago a cannabis social networking company, **MassRoots (MSRT)**, went public by marketing itself as

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Massroots shares hit a post-offering high of \$1.40 in 2016 but have steadily declined to currently trade around 14 cents per share.

Mr. Rosenbluth said, beyond the issue of this being a marijuana industry, any real momentum in the public markets in terms of institutionalizing the space will likely be dependent on federal laws.

"Historically when a thematic ETF is successful in gathering assets, there is a fast follower effect," he said. "But given that marijuana is still illegal at the federal level, I'm not surprised we aren't seeing that."

But creative efforts abound, and that means financial advisers should be constantly on the alert for new risks and opportunities.

Enter, for example, Inception REIT, a non-traded real estate investment trust that is seeking to raise \$50 million from wealthy investors to invest in cannabis-related real estate, which mostly includes warehouses and growing facilities.

Richard Acosta, the REIT's CEO and managing director, said the strategy is to take advantage of the fact that traditional banks won't lend to companies involved in the marijuana business because of its illegality at the federal level. He provides financing, but he's charging rates double and triple what traditional lenders would charge.

Regarding the risk that the federal government could theoretically step in at some point and override state marijuana laws, Mr. Acosta said his hedge is owning physical property that will still have value.

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Mr. Acosta said the fund has already attracted \$10 million, much of which came from individuals at asset management firms that are not yet involved in the cannabis market.

While such private investments might work for some wealthy individuals, most financial advisers are still working to keep their retail-class clients from getting too excited about the short-term price swings.

"Folks need to be reminded that pot is still illegal at the federal level, and what goes up really fast almost always comes back down just as fast," said Kashif Ahmed, president of American Private Wealth.

"If you insist on investing in these stocks, try to wait and find a reasonable price," he added. "Stocks that are up more than 50% in a couple of days are not priced to provide value."



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