

# EXTRACT



## Tips for successful cannabis investing in 2017

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North America's legal cannabis industry was estimated at \$6.7 billion in 2016, and ArcView Market Research predicts the market will hit \$20.2 billion in annual sales by 2021. With growth like that, it's no wonder plenty of people are starting to consider investing in the legal cannabis sector.

"From an investment standpoint, anyone who's under 60 and not retiring soon should be getting into this industry," Harris Shapiro, president and CEO at TFST Publishing, told Extract.

Shapiro has worked in the financial services sector for more than five decades and currently publishes two leading financial market letters, Focused Stock Trader and Cannabis Stock Picks.

"All young people should be getting into the cannabis space, it's going to be huge," Shapiro says. "Especially after the last election, with new states legalizing medical and recreational marijuana, it's going to mushroom with more and more states doing the same. It's a promising market — the growth potential is there."

Despite promising long-term investment potential, cannabis stocks are still risky business.

“Those penny stocks are posers,” Alan Brochstein, founding partner at New Cannabis Ventures and founder of 420 Investors, told Extract. “They’re not going anywhere. They’re not worth your time or money.”

Penny stocks are low-cost shares (less than \$5) that typically trade outside of major market exchanges. They’re considered highly speculative and high risk due to a general lack of liquidity, small capitalization, limited disclosure requirements and other factors. Most publicly traded cannabis stocks in the U.S. are considered penny stocks. These shares trade largely over the counter through the OTC Bulletin Board and pink sheets, exchanges that don’t require companies to file audited reports with regulators.

In 2014, the Securities and Exchange Commission (SEC) suspended five cannabis companies for fraud, as CNBC reported.

“Fraudsters often exploit the latest innovation, technology, product or growth industry – in this case, marijuana – to lure investors with the promise of high returns,” SEC officials said about cannabis stocks in the investor alert.

Shapiro agrees that most cannabis companies aren’t worth buying into. He says the legal marijuana industry today reminds him a lot of the dot-com boom days in the late ’90s and early 2000s.

“Even though something like 90 percent of those dot-com companies failed, the ones that survived are giants now, like Google, Facebook and Amazon,” he said. “I wouldn’t be surprised to see that happen with the cannabis industry.”

But there’s a key difference between the dot-com boom and the cannabis boom: There’s a real underlying business model behind the cannabis industry. The demand exists.

So, what should an individual investor look for in cannabis companies?

Brochstein offers this advice:

1. Assess each company’s access to capital.
  - Has the company ever raised capital before?
  - Would it be able to raise capital in a pinch?
2. Check company balance sheets.
  - How much debt?
  - How much cash?
  - Lots of debt + not a lot of cash = risky investment
3. Check company SEC filings.
  - No SEC filings = risky investment
4. Look at the company’s management team.
  - Who are they? What’s their experience?
  - What were they doing two years ago? Five years ago? Etc.

Brochstein also advises people to check out international cannabis markets. Canada, in particular, is poised to see major growth this year. The country has already legalized medical cannabis at the federal level, and Prime Minister Justin Trudeau’s ruling Liberal Party has pledged to legalize recreational cannabis for adult use nationwide in 2017.

Matthew Karnes, founder and managing partner at the cannabis-industry research and financial analysis firm GreenWave Advisors, points to biotech companies developing cannabinoid-based drugs as another area to look for good investment opportunities right now.

“Biotech companies like GW Pharma have a large market cap, and the U.S. medical cannabis sector is likely to continue growing regardless of whatever Jeff Sessions and the next administration try to do with marijuana enforcement,” Karnes told Extract in an interview.

Karnes is personally invested in GW Pharmaceuticals, a biotech company that developed cannabinoid drugs for the treatment of multiple-sclerosis related spasticity and epilepsy-related seizures.

“Given the medical benefits cannabis and cannabinoids have shown for many patients, especially children suffering with epilepsy, it would be very difficult and unpopular for

politicians to try to crack down on medical cannabis development at this stage,” Karnes said.

Despite market volatility and industry concerns over the coming presidential administration, Shapiro maintains a sunny outlook for the cannabis industry heading into Donald Trump’s presidency. He’s still betting on marijuana’s long-term investment potential.

“I don’t think Donald Trump wants to crack down on marijuana businesses in states,” Shapiro says. “I know Donald, and he’s a businessman. He already came out and said he wouldn’t interfere with state marijuana.”

Shapiro predicts Trump will push marijuana banking reforms through Congress within his first year in office and even thinks he’ll push for full legalization sometime during his first term.

If those predictions pan out, 2017 could be a very smart time to invest in the legal cannabis industry.

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