

LEARNING MADE EASY



Investing in Cannabis

**for
dummies**
A Wiley Brand



Be a pioneer and
invest in cannabis

Understand the risks and
rewards of investing in cannabis

Discover the hottest
investment categories

Steven R. Gormley
Cannabis Investing Expert



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by Steven R. Gormley

**for
dummies**
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Investing in Cannabis For Dummies®

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Introduction

Based on a report published in 2020 by Grand View Research, the global legal marijuana market, valued at US\$17.7 billion in 2019, is expected to expand at a Compound Annual Growth Rate (CAGR) of 18.1 percent, to be worth US\$73.6 billion by 2027. That represents incredible growth and explains why the push by many entrepreneurs and investors to capitalize on this growing market is often referred to as the “Green Rush” (comparing it to the California Gold Rush, which lasted from about 1848 to 1855).

The trouble with any rush, whether green, gold, or no color at all, is that it’s often accompanied by chaos, uncertainty, and failure — what former U.S. Federal Reserve Board Chairman Alan Greenspan called “irrational exuberance.” Sure, some people got rich during the Gold Rush, as will some people during the Green Rush, but most prospectors during the Gold Rush went from boom to bust, many without experiencing the boom. Likewise, until the cannabis market stabilizes, many businesses will fail, many investors will lose their shirts, and many con artists will scam unsuspecting investors and business owners out of millions, if not billions, of dollars.

To profit from cannabis as an investor, you really need to know what you’re doing. You need to know the industry, know how to find leads on potentially profitable investments, be able to size up a business’s potential for earning a profit, and have the knowledge and skills necessary to reduce your exposure to risk.

About This Book

Welcome to *Cannabis Investing For Dummies*, your personal guide to investing in the cannabis industry profitably and without losing your shirt. Of course, I can't guarantee either of those outcomes (making gobs of money or not going broke), but as an expert in the legal marijuana sector, I can show you how to find and research cannabis investment opportunities in a way that increases your chances of earning a profit while reducing your chances of investing in a lousy business or getting scammed by savvy con artists.

To make the content more accessible, I divided it into five parts:

- » **Part 1, “Getting Started with Cannabis Investing,”** brings you up to speed on the basics of investing in cannabis, introduces you to the different types of businesses you can invest in, and discusses numerous factors that can impact a business's ability to turn a profit. Here, I also lead you through the process of weighing the pros and cons of investing in cannabis, so you know what you're getting into before getting into it.
- » **Part 2, “Doing Your Homework,”** provides guidance on how to find leads on potentially profitable cannabis companies, and then research those companies and their management teams before investing in them. Unless you're going to base your entire investment strategy on luck, this part is essential reading.
- » **Part 3, “Buying and Selling Cannabis Stocks, ETFs, or Mutual Funds,”** gets down to the basics of trading securities in cannabis businesses. If you're already an experienced investor who has bought and sold securities on the stock market or you're working

with a qualified broker, this may be optional reading for you.

- » **Part 4, “Exploring Cannabis Investment Strategies,”** presents different strategies for earning a profit by investing in cannabis businesses. Buy low and sell high, right? Well, generally speaking, that’s certainly the goal, but this part breaks down that overarching strategy into more practical steps.
- » **Part 5, “The Part of Tens,”** features four “top ten” lists: ten ways to profit when the market drops, ten reasons not to invest in cannabis, ten criteria for choosing a cannabis business to invest in, and ten common mistakes to avoid when you’re just getting started.

In short, this book serves as your guide to investing in cannabis profitably without getting scammed by clever con artists or overhyped investment leads.

Foolish Assumptions

All assumptions are foolish, and I’m always reluctant to make them, but to keep this book focused on the right audience and ensure that it fulfills my purpose in writing it, I had to make the following foolish assumptions about you:

- » You’re interested but a little hesitant to invest in the new and growing cannabis industry, knowing it’s risky but wanting to profit from it in some way.
- » You’re willing to invest your time to properly research a cannabis business before investing in it. (If you’re not, don’t waste your time reading this book; just forge ahead, speculating in businesses you know little or nothing about.)

- » You're looking for guidance on how to increase your chances of earning a profit by investing in cannabis while reducing your exposure to risk.
- » You don't expect me to give you recommendations on specific companies or sectors of the industry to invest in. The cannabis industry has a high turnover rate in terms of new companies coming on the scene and old companies disappearing. Even if I did recommend a company to invest in, by the time you picked up this book and started reading it, I may have changed that recommendation.

Other than those four foolish assumptions, I can honestly say that I can't assume much more about you. The vast number of people who invest in cannabis or express some interest in doing so represent a diverse demographic. You may be 21 or 90 years old or somewhere in between, a white-collar or blue-collar worker, a housewife or househusband, a doctor, a lawyer, rich or poor. Regardless of the demographic, I applaud you for being open minded and willing to explore what I believe is a great opportunity for earning big returns in an exciting, new, and fast-growing industry.

Icons Used in This Book

Throughout this book, icons in the margins highlight certain types of valuable information that call out for your attention. Here are the icons you'll encounter and a brief description of each.



REMEMBER I want you to remember everything you read in this book, but if you can't quite do that, then remember the important points flagged with this icon.



TIP Tips provide savvy insight from an industry expert (me). When you're looking for a better, faster way to do something, check out these tips.



WARNING "Whoa!" Before you take another step, read this warning. I provide this cautionary content to help you avoid the common pitfalls that are otherwise likely to trip you up (and lose you money).

Beyond the Book

In addition to the abundance of information and guidance related to cannabis investing that I provide in this book, you get access to even more help and information online at Dummies.com, including a Cheat Sheet that serves as a quick reference guide to this book. To access this book's online Cheat Sheet, go to www.dummies.com and search for "Investing in Cannabis For Dummies Cheat Sheet."

Where to Go from Here

You're certainly welcome to read this book from cover to cover, but I wrote it in a way that facilitates skipping

around. For a quick tutorial on cannabis investing that touches on all the key topics, turn to [Chapter 1](#). To get up to speed on the types of businesses that constitute the cannabis industry, check out [Chapter 2](#). Turn to [Chapter 3](#) to get to know the various factors outside the industry that can impact the industry (and your investments), and to [Chapter 4](#) to figure out whether cannabis investing is even something you want to get into.

All the chapters in [Part 2](#) are essential reading. Before you invest a single penny in a cannabis business, you should carefully vet that business. Otherwise, you're not investing, you're speculating, and you may not even be doing that very well. The chapters in [Part 2](#) guide you through the process of digging up leads on potentially profitable businesses, researching a business and its management team, and conducting fundamental and technical analysis, so you have a pretty good idea of what you're getting in exchange for your investment.

If you're new to investing in general, head to [Part 3](#), and if you're a seasoned investor looking for more advanced information on different investment strategies, turn to [Part 4](#).

Consider the chapters in [Part 5](#) bonus material. These chapters are all quick reads that are chock full of tips and guidance on how to invest profitably in cannabis ... or decide not to invest in cannabis after you consider the risks.

Part 1

Getting Started with Cannabis Investing

IN THIS PART ...

Getting a quick primer on cannabis investing — from identifying investment opportunities and researching them to buying and selling investment securities.

Distinguishing between cannabis business types — medical versus adult recreational, and plant-touching versus ancillary businesses.

Understanding how politics, laws, regulations, and the high costs of doing business in the cannabis industry can impact investments.

Weighing the pros and cons of cannabis investing to determine whether it's the right move for you.

Chapter 1

Taking the Nickel Tour

IN THIS CHAPTER

- » Deciding whether you really want to invest in cannabis
 - » Investing in businesses that touch the plant or those that don't
 - » Scoping out different ways to invest in cannabis
 - » Digging up leads on potential investments and researching them
 - » Creating and executing your investment strategy
-

Whenever you're getting started on a new topic or trying to develop a new skill, you can benefit from having a general understanding of what's involved. It's sort of like reading the plot or synopsis of a movie or book before starting to watch or read it ... or seeing the finished product before you start following the instructions to assemble it. You get the gist of what you're about to encounter, which serves as both a framework on which you can hang the details, and the context for more quickly and easily understanding those details.

The purpose of this chapter is to bring you quickly up to speed on the topic of investing in cannabis and to provide the framework and context for understanding topics covered in subsequent chapters.



REMEMBER

This book is structured in a way that facilitates skipping around, so feel free to skip this primer if you think you don't need it or if you're looking for more detailed information and guidance about a specific aspect of investing in cannabis. On the other hand, if you're a quick learner with an intuitive mind, you might read this primer and start investing right away based solely on the general directions it presents (not recommended, but it's certainly an option).

Weighing the Pros and Cons of Investing in Cannabis

I don't try to sell anyone on the idea of investing in cannabis, except, of course, prospective investors with lots of cash who want to invest in the cannabis company *I* run. Even then, I want them to invest with eyes wide open, knowing the potential for both profit and loss. In fact, I actually spend more time *discouraging* people from investing in cannabis, because I can usually tell quickly from talking with someone who's eager to invest in this industry whether they're too eager and ill-informed or simply won't perform the due diligence necessary to invest wisely.

I don't know you, so I'm not going to try to encourage or discourage you from investing in cannabis businesses. Instead, I present some of the most important pros and

cons you should consider and leave the decision up to you.

Pros

The biggest motive people have for investing their money in any venture is profit. Chances are good that you, too, are curious about investing in cannabis because you want to profit from it. The industry is growing in leaps and bounds, and you want in on the action. Nothing wrong with that, but consider other benefits. Here's a complete list (or as complete as I can think of at the moment):

- » Profit (which I already mentioned) is the biggie.
- » Getting in at or near the bottom of a new and exciting industry is always a thrill. By investing in cannabis, you become a participant, not merely an observer, in the green rush.
- » Being able to tell people you know that your investment portfolio or retirement account includes cannabis stock. This may sound silly, but being invested in cannabis says something about who you are and may help you engage in conversations you would otherwise be excluded from.
- » If you consume marijuana, you get to invest in a product you enjoy and help to make it more available to others.
- » If you invest in medical marijuana, you're investing in medical research and helping to bring those new medicines to market, potentially alleviating some of the world's physical and perhaps even mental suffering.



REMEMBER

Life offers us few choices to invest in a new industry in its infancy. I like to think of investing in cannabis as what it would have been like to invest in alcohol three to five years before prohibition was repealed. How often do you get to participate in an industry at the dawn of legalization? Investing in cannabis also reminds me what investing in the dot-com era was like. I got into the technology boom shortly after graduating college and learned a great deal about new industries. Cannabis is a new industry. It presents an opportunity for an investor to be a pioneer.

Cons

As you may have guessed from my reluctance to encourage people to invest in cannabis, I can come up with more reasons *not* to invest in cannabis than *to* invest in it. Here's a list of reasons not to invest in cannabis that you should seriously consider before investing in this industry (see [Chapter 4](#) for more details):

- » Cannabis attracts money, and money attracts thieves. In addition, many novices eager to invest in cannabis are easy marks because they're eager, naïve, and have money — just the combination of traits a con artist is looking for.



REMEMBER

Many of the successful entrepreneurs in cannabis got their start in the black market, which attracts a very particular personality type. Leopards don't change their spots. Some savvy former black

marketers have simply chosen a different crime — instead of dealing in illegal marijuana, they're now on the prowl for unsuspecting investors they can fleece. And they're not the only thieves that pose a threat to cannabis investors, as illustrated in the sidebar, ["Crooks in law enforcement."](#)

- » With lots of money flowing into the industry from eager investors, even legitimate cannabis stocks are overvalued. The more overvalued a stock is, the further the potential fall. Short sellers often target overvalued stocks just for this reason; then, when the stock price drops, they cash in and everyone else loses. (See [Chapter 12](#) for more about short selling.)
- » Cannabis businesses struggle to be profitable due to numerous factors, including the high costs of complying with federal, state, and local marijuana laws; increased security costs; increased bank fees; and the cost of specialized software.
- » Cannabis stocks have an increased susceptibility to *dilution* because cannabis companies have a tougher time getting bank loans in the U.S. (due to federal laws that discourage banks from doing business with cannabis companies). Companies issue and sell more shares to raise money, but that dilutes the value of existing shares.
- » Companies that grow cannabis are at risk of cannabis becoming a commodity, and if (when) that happens, prices and profits drop.
- » Laws, and enforcement of those laws, are susceptible to change, and if they change in a direction that hurts cannabis businesses, their investors suffer as well.
- » Supply-and-demand imbalances are common in the cannabis industry. These imbalances not only disrupt the supply chain but also negatively impact profits by

creating market gluts (which drive down prices) or shortages (which increase costs and reduce demand); either way, profits suffer.

- » Cannabis still has a healthy black market, even in states where it's legal, and black-market growers and dealers don't pay taxes, so they can afford to sell their product for less. If state and local authorities don't crack down on illegal production and sales, legal businesses have a tough time competing.



TIP

Don't rule out investing in cannabis just because of this long list of potential drawbacks. You can considerably reduce your exposure to risk by doing your homework and investing in well-run companies. See [Part 2](#) for guidance on how to properly research businesses and their management teams, and keep up on what's happening in the industry.

CROOKS IN LAW ENFORCEMENT

Corrupt law enforcement officers pose a threat to both legitimate cannabis operations and their investors. These bad cops have been known to raid lawfully operating cannabis operations and take cash and product. Operators have little recourse. What are they going to do, call the cops? Likewise, operators get little sympathy and support at the judicial level.

An unjustified raid can be fatal to a business. I was a partner in a dispensary in Los Angeles that was raided by the police. They took cash and damaged the on-site cultivation facility, causing hundreds of thousands of dollars in losses, not to mention the loss of revenue that occurred as a result of the closure of the business. It took months to recover from the raid, and the city eventually dropped the charges.

Incidents like that still happen and likely will until federal prohibition of marijuana is repealed.

Deciding Whether to Invest in Businesses That Touch the Plant or Those That Don't

One of the first decisions to make before investing in cannabis is whether to invest in businesses that have contact with the plant or those that don't (often referred to as *ancillary* companies):

- » **Plant-touching:** These businesses come into contact with the plant at some point during the growth, manufacturing, distribution, or sale. They include grow operations, manufacturers of infused products (MIPs), shipping firms, dispensaries, and licensed delivery services. Plant-touching businesses stand to profit most from cannabis, and they're also at the greatest risk of suffering losses when the industry takes a hit.



TIP

If you decide to invest in a plant-touching business, consider a *vertically integrated company*, which means the business does its own cultivation, manufacturing, distribution, and sales. Vertically integrated companies are less susceptible to supply chain disruptions because they control their entire supply chain.

- » **Ancillary:** These businesses serve the plant-touching businesses in some way. Perhaps the best-known ancillary business is The Scotts Company, which

provides fertilizer, pesticides, and disease control products, primarily for lawn care but also for agricultural operations, including cannabis cultivation companies. Other ancillary companies include manufacturers and dealers of equipment for cultivation operations; legal and accounting services that specialize in cannabis; software companies that develop point-of-sale and supply-chain managements systems; security equipment and service providers; and real estate groups that buy, sell, and rent land and buildings for cannabis businesses.

While plant-touching businesses carry the most potential for profit and risk, ancillary companies still stand to profit from the industry, but they have less exposure to risk. For example, if the U.S. federal government decided to crack down on cannabis businesses across the country, that revenue stream would be negatively impacted for The Scotts Company, but the company would still have value as a business selling lawn care products.



REMEMBER

According to a study published by Deloitte in 2016, ancillary businesses are estimated to be 2.5 times the size of the cannabis industry itself, so ancillary businesses stand to profit handsomely from the success of the cannabis industry.

Exploring Your Investment Options

You can profit from legal cannabis businesses in several ways, depending on how directly you want to be

involved. The most direct approach is to start your own cannabis business. The least direct approach is to trade cannabis-related securities, such as stocks, bonds, or exchange traded funds (ETFs).

In the following sections, I present different ways to invest in the cannabis industry to make you aware of the wide variety of options.

Starting your own business

One approach to investing in the cannabis industry is to start your own business — either a plant-touching or an ancillary business. Here are some of the more popular opportunities cannabis entrepreneurs pursue.

- » **Cultivator:** Cultivators start and grow plants from seeds; harvest the plants; separate the useable portion of the plants and properly dispose of the green waste; dry, cure, and trim the harvested bud; arrange for third-party lab tests to ensure the safety and quality of the product; pack and ship product to manufacturers and dispensaries; and track and report all processes as required by law to government regulatory agencies. Note that cultivation operations are the lowest profit-margin segment of the industry.



TIP

Cultivation is a great choice if you have a passion for the plant and a green thumb.

- » **Manufacturer of infused products:** MIP is an industry term used to describe a company that makes marijuana-infused products, including concentrates such as wax and shatter; oils and tinctures; and lotions and edibles. This segment of the industry acts as a laboratory as well as a processing plant. It may