

THE WEEK

High returns: can you make money investing in cannabis?

Cannabis is now legal in Colorado and Washington, as well as Uruguay. Is there (legal) money to be made?

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MOST new years bring a titivating novel investment opportunity. “Wearable computing” is one such in 2014; ditto “the internet of things”. But in hype terms it’s the newly-legalised marijuana market that is making the running among adventurous investors this January.

A quarter century after Bob Marley issued his clarion call to “Legalise Marijuana” (on such noble grounds as “dem say it cure glaucoma, yeah”), the hippy dream is becoming a reality. In December, Uruguay became the first country to legalise and regulate the production and distribution of recreational cannabis. And despite major political and social opposition in the US, two states – Colorado and Washington – have plans to do likewise. Alaska may not be far off. One wonders what Sarah Palin makes of it all.

These moves have found support among some libertarians and free marketeers, who argue that the failure of the War on Drugs is argument enough to legalise weed. The US investment bible Barrons (not known for its radical social views) recently put a cannabis leaf on its front cover, arguing that “legalising marijuana will hurt drug lords, help cash-strapped states and ease burdens on police and prisons”. The Economist, meanwhile has named “modest yet bold, liberal and fun-loving” Uruguay as its Country of the Year for 2013, claiming that if more countries followed its example – and legalised more hardcore narcotics to boot – the world would be a better and safer place.

Wherever you stand on that argument, there’s no doubt that weed will be a revenue spinner. Bean-counters in Colorado are initially predicting annual revenues of \$578m from sales; generating some \$67m in taxes. Indeed, a 2010 Cato Institute Study estimated that if cannabis were to be legalised all over the US, it would generate \$8.7bn in tax revenue alone. The gains from spliff tourism aren’t to be sniffed at either. If Uruguay becomes the “New Amsterdam” of Latin America, neighbouring Paraguay – which currently produces most of the region’s cannabis illegally – may kick itself for missing a trick.

It’s hard to think of another commodity that straddles two such giant markets – consumer lifestyle and medical – with such ease. Indeed, some commodities analysts reckon that if marijuana joins other big-time agribusinesses, it could easily become the most valuable cash crop

in America – outstripping corn and wheat combined.

And while some US states continue to dig in their heels at the prospect of legalising recreational weed, there appears to be an unstoppable momentum towards decriminalising its medicinal use. The legalised US cannabis market – worth around \$1.44bn last year, according to the investment fund group, Arcview – is projected to reach \$10.2bn over the next five years. No wonder frozen Wall Street began the year on a cannabis binge, sending the small crop of listed “pot stocks” sky high.

So is weed really an investable proposition? High Times – the New York magazine devoted to all things dope-related – certainly thinks so. It recently launched a private-equity fund that is seeking to raise \$100m to build a portfolio of investments in marijuana-related businesses. And while many US fund managers and banks remain leery of backing the burgeoning sector in public (on both reputational and legal grounds), several blue-chip managers – including Arcview and Privateer Holdings – are betting serious money on a “green rush”.

The market divides into two distinct groupings: “pure play” stocks (ie companies that make cannabinoid products); and companies whose products service the wider market. Both, as CNN notes, have been “blazing in recent weeks”. Cannabis Science, which uses cannabinoids in drugs treating autism, cancer, HIV and other illnesses, has gained a whopping 400%, albeit from a tiny market cap. And therein lies the big danger. With those gains comes the risk of extreme volatility.

Some reckon there’s greater safety in larger stocks like Medbox, which doesn’t sell or cultivate cannabis, but builds the machines that dispensaries use to store it – and is now even planning to launch “pot vending machines”. Other US companies in the broader weed ecosystem include Hemp Inc, which sells hemp-based products, and GreenGro and GrowLife which provide technology and services to growers.

If the prospect of crossing the Atlantic to invest doesn’t entice, you might take a look at GW Pharma, a UK-based biotech that is listed on Aim in London as well as on Nasdaq. Founded in 1998 by two entrepreneurial medics – Dr Geoffrey Guy and Dr Brian Whittle – the company is developing a portfolio of cannabinoid medicines. These include Sativex, for the treatment of MS spasticity and cancer pain; and Epidiolex, which treats childhood epilepsy. Shares have had a stunning run this year (up from 61p at the end of 2012 to 232p this week).

None of these investments is for the faint-hearted – as Michael Lewis of Motley Fool advises: “Please read the Warning Label Before you Inhale”. Still, there’s a feeling in the market that marijuana crossed some kind of rubicon in 2013.

One thing we can be sure of: both Big Pharma and Big Tobacco will be watching events in Colorado and Uruguay very closely this year.