

Ending the War on Pot Would Add \$20 Billion to the U.S. Economy

By: Ben Gersten – April 25, 2013

So much for the war on drugs. For the first time ever, a majority of Americans now support legalizing marijuana.

In a recent Pew Research Center poll, 52% of Americans favored full legalization, much higher than the 12% when polling on the issue began in 1969 and up considerably from 32% less than 10 years ago.

According to a new report from the Cato Institute, that could inject \$20 billion a year into the U.S. economy due to the tax revenue generated and savings in law enforcement costs.

So how big is the market for market for marijuana?

With current annual sales of \$1.5 billion, the market is now expected to double to \$3 billion by 2014, then quadruple to \$6 billion by 2018.

But the best way to estimate the potential size of the legal market for cannabis begins with looking at the illegal market, which is somewhere north of \$18 billion a year, Harvard economist Jeffrey Miron told *USA Today*.

The good news is now those illicit sales will increasingly become legal.

Washington state and Colorado legalized marijuana for recreational use in the past several months, and 16 other states as well as Washington, D.C., have legalized medical marijuana, while 10 others are considering legalizing medical marijuana.

So now that the industry's ready to take off, is there a way to invest in marijuana?

Investing in Marijuana Stocks

Thus far, investments directly in the marijuana industry are limited and risky, as the use and selling of marijuana is still a federal crime.

"To the extent that there's money to be made, a lot of it is already being made by illegal operations," Miron said. "The notion that there will be new wealth is exaggerated."

Even so, many firms are hoping to cash in on what many are calling the "green rush."

For marijuana stocks, the largest company by market cap is San Diego-based Medical Marijuana Inc. (PINK: MJNA), currently valued under \$150 million and last trading at

\$0.182. Its mission is to be the premier cannabis and hemp industry innovator, focusing on formulating, planting and manufacturing cannabis and hemp.

Other publicly traded companies primarily involved in growing and dispensing marijuana include GreenGro Technologies Inc. (PINK: GRNH), Hemp Inc. (PINK: HEMP) and Cannabis Science Inc. (PINK: CBIS), but all of these are highly volatile penny stocks susceptible to scams and hype.

Just look at Medbox Inc. (PINK: MDBX), which sells a machine that distributes medications including marijuana based on fingerprints.

Its stock was hovering around \$3 leading up to last year's election and quickly doubled to \$6 after President Barack Obama was reelected.

But it was a *Marketwatch* story published the week after the election that really made headlines. The article recommended investing in Medbox and sent the stock soaring to \$215 - before crashing to the \$20s the next day, where it still trades today. Yes, some investors scored big, but most lost money - and lots of it.

One way of investing in marijuana that comes with less risk is by not getting involved in actually buying, growing or selling the product.

Privateer Holdings, a private equity fund based in Seattle, was created with the intent to buy up smaller marijuana-related businesses in order to create one gigantic firm.

Privateer's first buy was Leafly, a website and mobile app similar to Yelp that reviews 500-plus strains of cannabis, drawing 2.3 million monthly visitors.

ArcView is another marijuana-related company that does not intend to deal with dispensaries or marijuana itself. Instead, it operates an angel-investor network matching marijuana-related companies with rich activists.

Privateer and ArcView are the biggest private-equity firms solely focused on the marijuana industry.

"A lot of people don't take the industry seriously," Chris Walsh, the editor of *Medical Marijuana Business Daily*, told *The Boston Globe*. "But this is a real business, and it's not a bunch of stoners. There's banking, the investment world, software."