

My 86-year-old mother called me up and wanted to buy some weed

I bet you that title got your attention! A month ago I received a phone call from my mother and she asked me a question that I've heard multiple times from retirees over the last four or five years. *How do I exactly buy some of these companies that are selling this marijuana?*

My mother said it looked like a tremendous new business opportunity. I replied to her with what I've been telling investors for years. This is a real tough area to buy anything and yes, there's definitely huge potential, but it may be too soon. Some reasons are:

- Marijuana is still federally prohibited, so it forces any of these operations to deal strictly on cash. I can't imagine a business today that doesn't have a bank account or a checking account, but the banks can't take the money. And if they did, it is considered money laundering.
- Most of these stocks are what are called **penny stocks**. There is very little data, they are extremely risky to buy, and you see them come and go quickly.
- Their direct competition is the alcohol and tobacco industries. These two industries stand to lose a tremendous amount. Fact is, in states where pot is legalized, beer and cigarette sales go down quite dramatically <1>. I don't want you to think that these industries are going to lose their profits to a bunch of potheads out back that are growing weed. It's not going to happen like that.
- When there's so much disruption, you have to wait until the legitimate players step in to dominate the market. And I don't believe that the legitimate big players will step in until the feds loosen up the federal laws concerning marijuana.

So where exactly does that leave the interested investor that believes that there's going to be a tremendous business opportunity here? Again, I'd say it's a wait and see game here.

Some points of interest:

- Already, there are two or three big alcohol companies that are now invested in technology that allows them to infuse alcohol with THC (Tetrahydrocannabinol). THC is a chemical responsible for most of marijuana's psychological effect. So great, now, not only are people going to be getting intoxicated by the alcohol, they're going to be getting stoned at the same time. I'm sure that's just what America needs. People both intoxicated and stoned. Did you catch the sarcasm there?
- There is also a recent trend called Vaping marijuana. As Truth on Pot Explains, "the combustion of marijuana still produces several known carcinogens and tar, which can irritate the lungs and lead to chronic bronchitis. Vaporizers were mainly designed to overcome this issue. By heating marijuana at a lower temperature than combustion, the devices produce an inhalable vapor that still contains the active medical ingredients in marijuana (cannabinoids), but without the harmful by-products. Vaporizing cannabis is said to remove approximately 95 percent of the smoke that is inhaled. What's more, vaporizing has been suggested to increase the yield of anti-inflammatory terpenoids that protect the lungs from irritation." Right then. <2>
I'm not saying everyone who uses a Vapor, smokes marijuana out of it. People just want to look cool.
- Remember decades ago when they had the Marlboro man who had that cowboy look to him? I guess he was selling brand name Marlboro cigarettes. He kind of even looked like Clint Eastwood back then.

And then, of course, we have the most interesting man in the world, and he does beer commercials for Dos Equis beer. His slogan says "Stay thirsty my friends". Now, I believe we will see TV commercials showing people Vaping pot and or ingesting it through alcohol because that is much cooler than seeing a bunch of middle-aged people sitting around eating marijuana brownies.

- Next time you go in the gas station for something, take a look at what I unfortunately call the wall of cancer. There's normally a whole wall of cigarettes, tobacco cigars, and smokeless tobacco. I'm always amazed when you go inside there and see somebody buy \$20 of gas and spend \$45 on cigarettes. Just imagine up on the wall of cancer, do you have your cigarettes there with all the different brands? They have big cigars there with all different brands. And then in the next display, so to speak, here's marijuana for Vaping. Or here are marijuana buds for sale. Cigarette companies know how to sell, grow, package, and distribute their products. And they've got distribution centers all throughout the country, and, indeed, the world.
- Another interesting avenue to indirectly invest into would be that there are a few fertilizer companies out there and fact is they're starting to buy hydroponics companies. Apparently, pot is grown inside laboratories, so it's valuable. You could find some of these companies and you could just Google *Fertilizer Company that owns a hydroponic company*. This is just an indirect way to take advantage of this opportunity.

To sum it up

- I do believe buying individual small penny stocks is risky business.
- It's really just too hard to get reliable information on the small start up.
- This is a massive industry that's coming down the line.
- I do believe the medical application is valid.

So, if you're still thinking of buying some of these small penny stocks, I would consider buying an ETF. An ETF is an exchange traded fund of which would own probably 20 or 30 different companies.

One thing I've learned about investing over the years, sometimes the early bird doesn't get the worm. The early bird gets eaten by the hawk, so be patient. In most cases, the bigger players will step in and dominate the industry. I do believe this will happen, once the federal issue is resolved.

Sincerely,
John Romano CFP®

Footnotes:

<1> <https://www.forbes.com/sites/thomaspellechia/2018/01/22/alcohol-sales-dropped-15-percent-in-states-with-medical-marijuana-laws/#7e7fd0845f22>

<2> <https://www.bustle.com/articles/77073-7-reasons-to-vaporize-weed-instead-of-smoking-it-you-modern-woman-you>

John Romano, CERTIFIED FINANCIAL PLANNER™, has over 30 years experience in the financial field. John is a Registered Representative with Securities America, Inc. (member of the FINRA and SIPC), and an Investment Advisor Representative with Securities America Advisors. He has prepared hundreds of reports for retirees to assist in their retirement income planning needs. He is dedicated to providing portfolio analysis, dividend and income information, and investment management services to retirees (and those preparing to retire) in The Villages, Florida, and throughout the United States.

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