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How to Invest in Marijuana Stocks

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Spending on marijuana is going up by about 21% a year from just under \$30 billion in 2020 to an estimated \$63.5 billion by the end of 2024. Thus marijuana stocks are potentially very attractive investments. The issue, like with any growth sector is how to invest in marijuana stocks. We look at the basic steps to understanding the sector with its opportunities and risks and then choosing individual stocks or ETFs. This will be a fluid industry as it evolves which will make sound management as important as the type and quality of the products that companies offer.

Marijuana Products

Marijuana (cannabis) has two separate uses. It can be used for recreational purposes, medicinal purposes, or both. Marijuana for recreational use is legal in Canada and in fifteen states in the US and the number of US states where it is legal is likely to increase. Medical marijuana is legal in thirty-five states in the USA as well as Canada. Cannabis for health reasons requires a prescription and is broadly used to treat depression, anxiety, stress, and chronic pain as well as nausea caused by treatments for cancer. The chief ingredient that helps people medically is CBD.

What Is CBD?

CBD stands for cannabidiol. After THC it is the most prevalent ingredient in marijuana and the one primarily responsible for marijuana's therapeutic effects. CBD does not cause a "high" so it has no abuse potential. It is found in prescribed seizure medicine and is likely to have wider and wider use over the years making this a second market-maker for cannabis products beyond recreational use.

Types of Marijuana Stocks

As with any business sector, there are some companies that offer the entire range of services necessary to produce, distribute and sell products and others that fill just one niche within the sector. In the marijuana industry there are growers, distributors, and retailers of various strains of marijuana. For normal use of pot, retailers also include folks who make, distribute, and retail smoking paraphernalia. And, there are biotech companies that are working to fine tune the use of CBD and other ingredients in marijuana for specific medical uses. The old saying from the days of the California gold rush may well apply in your chose of types of marijuana stocks. When everyone is digging for gold you can generally make more money selling picks and shovels. Likewise, those that effectively retail the final products may be more reliable choices when it comes to how to invest in marijuana stocks.

Top Marijuana Stocks

Canopy Growth comes to mind as a leading company that cultivates cannabis. GW Pharmaceuticals is a leader

in developing drugs based on cannabinoids. And, not surprisingly, a leader when it comes to supplying the fertilizers, hydroponics, lighting, and other means for growing marijuana including managing and packaging services, is Scotts Miracle-Gro.

Risks of Marijuana Investing

A basic risk in the marijuana industry is that marijuana is illegal to grow, sell, and consume according to U.S. Federal Law. This makes it difficult for companies in the sector to get financing, ship across states lines where marijuana is not legalized for recreational use or as a medicine. Despite movement to decriminalize marijuana on a national level there is no guarantee that it will happen or that there will not be a huge crackdown by the Feds at some point in the future.

As more and more states have made marijuana legal for medicinal or recreational use, many companies jumped into the fray. They geared up for huge demand and then had to scale back. Cash management and business efficiency will be major factors in determining which companies will survive and succeed. A company like Scotts Miracle-Gro is positioned better than many because it has a huge lawn and garden business to help balance their efforts in the marijuana realm.

Many marijuana stocks trade over the counter, are penny stocks and prone to manipulation and trade very thinly making them investment risks.

When looking at marijuana stocks consider how long they have been in business, how well they are currently doing financially, and what sort of protective moat they have as an investment. For example, do they make a steady income selling materials to growers as well as selling exotic marijuana strains that could go out of favor?

And, how much pot do they produce at what overhead cost compared to their competitors? The most efficient companies will be the best long term investments.

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