



AFOA - Investing in the Cannabis Industry

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Since the legalization of cannabis in Canada in October of 2018, First Nations have been asking Peace Hills Trust how to 'get in on the millions of dollars that are being made in pot'. Many feel that they are missing out on a once in a lifetime opportunity. While it is true that some cannabis companies have had some spectacular growth in their stock prices, the actual business of growing, packaging, marketing and selling cannabis is still in its very early days. A cautious approach is needed so that Nations do not invest precious capital in losing ventures.

First, cannabis is a commodity, like oranges and lettuce, so the more people that grow it, the less it can be sold for. Putting an industrial size greenhouse on your territory to grow cannabis may not be such a good idea if every other Nation in the country is doing the same thing.

Second, there are many methods to invest in cannabis: buy shares in an existing company; joint venture with an existing company; start your own company; grow cannabis on traditional territory and sell it to an existing supplier; and so on.

Before a Nation undertakes any business opportunity, it should do all the due diligence required to assure that the odds of the business being a financial success are in the Nation's favour. The due diligence process is a long and complicated series of steps, and is not the subject of this article. That said, performing due diligence when investing in cannabis is absolutely critical.

Why is this? Simple. The cannabis craze has all the signs of being an investing 'bubble', like the dot.com bubble that occurred in the late 1990s. The thing with bubbles is that they eventually burst. During the dot.com craze there were investment people (basically shameless promoters) saying that the world had changed and everyone was going to 'make millions' with dot.com companies. Most of these companies had no income, and may not have any for several years, yet the stock promoters were telling people 'don't worry, it is different this time'. Many investors believed the hype and poured hundreds of millions of dollars into dot.com companies.

As it turned out, it was not different this time. Investors eventually realized that a company has to actually make a real product and make real money if it is going to be worth anything in the long run. In a few years, the market turned, the vast majority of these companies went broke and many investors were wiped out. True, there were people who made some money from this process, but they were mostly those selling the shares in the first place, not those who were buying them later.

This story is very relevant today, as there are many people promoting cannabis deals to First Nations. Some say the Nation can buy into private companies. True, but some of these private companies do not have the proper licensing to grow and sell cannabis. The licensing process could take some time, which means some of these firms may be years from producing any income.

Starting in October of this year, investors are growing skeptical. They now want to see real income, and many of the big cannabis companies are not producing cannabis (or income) anywhere near what they projected. As a result, a lot of the biggest cannabis companies have had their share prices decline as much as 40%, and lost billions in market value. Cannabis firms will now have to actually start showing revenues that justify their lofty share prices.

Make no mistake, there is money to be made in the cannabis industry. Right now, in these very early days of the business, choosing the

companies that will make money from those that will disappear in the next few years is extremely difficult. Before a First Nation starts putting out cash for any of these ventures, they should first obtain and review a written business plan from the enterprise. (Note: a proper business plan is NOT simply a Powerpoint presentation, because anyone can put a Powerpoint presentation together that will promise the moon.)

It has been said many times: if it does not work on paper, it will not work in the real world. There are many qualified business evaluators that can help a Nation sift through the offers they are receiving and reviewing. Get professional help to complete your due diligence before jumping into the cannabis business. It will take time and money to complete the review, but it could save the Nation millions in the long run.