

# This Could Be the Smartest Marijuana-Related Investment You Make

## Description

Millions of North American investors have become transfixed by the marijuana industry.

It's easy to see why. The medical marijuana industry seems to only be in its infancy. Great progress has been made using the drug to treat everything from chronic pain to seizures. Now that it has gained more acceptance, money is pouring into the sector. That cash will fund research which will likely lead to bigger breakthroughs.

But the medical marijuana market pales in comparison to the recreational pot market. Prime Minister Justin Trudeau has pledged to make marijuana legal with reports that legislation to do so will be tabled in April. If the reports are accurate, Canadians will be able to enjoy fully legal weed on July 1, 2018.

One estimate pegs the size of Canada's marijuana market to be in excess of \$22 billion once we include medical marijuana, the recreational market, and an influx of marijuana tourists, which would mostly come from the United States.

While the potential market is huge, there's just one problem. All of Canada's marijuana stocks are so expensive that no valuation-based investor will touch them.

## The problem with pot stocks

**Canopy Growth Corp.** ([TSX:WEED](#)) is Canada's largest marijuana stock. It has a market cap of \$1.7 billion.

In 2016, the company did just \$12.7 million of revenue and lost \$3.5 million after taxes. Analysts predict the red ink will continue in 2017 and 2018.

In what world is a stock that generates \$12.7 million in revenue worth \$1.7 billion? Shares trade at 132 times sales. Not earnings. Sales. This makes zero sense to investors who insist on paying a reasonable price for their investments. Canopy (and its peers, which trade at similarly excessive valuations) are the epitome of speculative stocks. These are hardly investments.

The marijuana sector reminds me of the tech sector in 1999. It was obvious back then tech was going to change our lives, just like we all know legal marijuana will be big. That still didn't make the average tech stock a good long-term hold. I'm worried the same thing will happen with pot stocks. After all, history has a way of repeating itself.

## The smart way to play the trend

Fortunately, there are ways investors can have their cake and eat it too. All we need to do is identify industries that will get a nice bump from legal pot.

My favourite idea is to look at Canada's industrial REITs. These companies own warehouses that are

rented to small manufacturers, retailers, or shippers. It's obvious that marijuana companies will start snatching up that space.

It just doesn't make sense for a marijuana grower to start acquiring real estate. They can keep their capital outlay to a minimum by just renting space. In addition, they're going to want space that's close to highways, yet isn't out of the way for employees or other potential visitors. Industrial REITs have plenty of that kind of real estate.

In fact, one of Canada's top industrial REIT CEOs has already publicly pointed out such an opportunity. **Pure Industrial Real Estate Trust** (TSX:AAR.UN) CEO Kevan Gorrie recently identified two major growth areas: e-commerce and marijuana.

The company currently owns 21 million square feet worth of industrial space in Canada with long-term plans to up that to 40 million square feet and add an additional 15 million square feet in the United States. Legal pot will likely be a big part of that growth plan.

Pure shares currently trade at a very reasonable valuation, too. The company earned \$0.40 per share in funds from operations in 2016, putting shares at just 15 times the REIT's equivalent of earnings. Compare that to Canopy.

Oh, and shares also pay a succulent distribution. The current yield is 5.1%.

### **The bottom line**

Many investors won't be interested in a company like Pure because it doesn't have the potential to truly make them rich. This is the wrong way of thinking.

In fact, Pure is much more likely to make someone rich than a high-flying marijuana stock that's trading at a huge valuation. As the tortoise taught us, it's slow and steady that wins the race.

### **CATEGORY**

1. Dividend Stocks
2. Investing

### **TICKERS GLOBAL**

1. TSX:WEED (Canopy Growth)

### **PARTNER-FEEDS**

1. Msn
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