



Marijuana Investors: Have You Considered This Major Risk?

Description

I don't own any marijuana stocks. I've stayed away from the sector for one simple reason.

Although I mostly agree that the pot market is poised to be massive here in Canada, and that opportunities exist to expand the drug's appeal to folks who would never consider lighting up a joint (like through cannabis-infused drinks, for example), I just don't know who the winners are going to be.

Sure, **Canopy Growth** ([TSX:WEED](#))(NYSE:CGC) is the leader today, but will that company dominate the pot market in 2024? I'm skeptical. There's just too much money pouring into the sector, and things are changing quickly. Maybe the company gets overtaken by a current competitor. Or maybe there are a bunch of venture capitalists meeting right now, about to start the next great marijuana company.

Compare that to the banking sector, which is the largest overall sector in my portfolio. I'm 100% confident Canada's five largest banks will continue to dominate the industry a decade from now. This makes analysis that much easier.

What about unknown risks?

There's also a major long-term risk being faced by the major pot producers today — one that I don't think has been adequately analyzed or discussed. And if Canopy Growth emerges as the leader in this burgeoning industry, its shareholders may have to face this a couple decades down the road — perhaps even sooner.

The long-term effects of cannabis use on the human brain are still up for debate, but there's already evidence out there that daily marijuana consumption might not be the best thing for our grey matter. Certain studies have linked steady cannabis use with impaired brain function (especially in adolescents), and researchers are somewhat concerned there's a link between cannabis use and developing psychosis.

And it doesn't take a trip through medical college to deduce that smoking cannabis on a regular basis might not be the best thing for your lungs, even if it doesn't contain the kind of harmful byproducts as

smoking tobacco. But there have been few studies on the long-term effects of marijuana smoke to your lungs. We simply don't know if smoking the drug will turn out to be harmless — something that can be easily reversed by ingesting marijuana in a different way (or quitting completely), or something that represents a major long-term health risk.

That's the major risk facing the marijuana industry today. If it does turn out marijuana has an adverse long-term effect, and folks end up clogging the medical system with pot-related health issues, you can bet provincial healthcare systems will go after pot producers. Several provinces are currently suing the big tobacco companies for costs associated with treating various tobacco-related illnesses over the years. And you might remember big tobacco-related lawsuits between the U.S. government and the tobacco companies a couple of decades ago.

How big is this risk, really?

I'm the first to admit this doesn't seem like a big deal today. We're likely decades away from seeing this issue rear its ugly head, and it would be easy for Canopy Growth shareholders to hit the sell button once this issue becomes mainstream.

There are several big risks with owning Canopy today, including the company producing enough to get past Canada's current pot shortage, beating its domestic competition and becoming the dominant pot producer, growing the market beyond current regular users, successfully rolling out hundreds of pot stores, and getting its international expansion efforts right. If the company can do all that, only then could health-related lawsuits become an issue in about 20 years.

So, at this point, marijuana investors should only consider this a small risk — something to tuck away in the back of their minds.

But that doesn't mean the risk doesn't exist, and I'm willing to bet it doesn't take 50 years to rear its ugly head once a link is established between regular marijuana use and any health issue. Lawyers will be much more nimble this time around, especially knowing how many billions were paid out by tobacco companies.

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