

*There are more than 200 marijuana stocks, and the entire sector is enjoying abnormally high returns. This book will get you started as you invest in this rapidly expanding sector of the economy.*

## **MARIJUANA STOCKS: Variables for You to Consider & a List of 231 Marijuana Stocks Traded on U.S. Capital Markets**

by Anthony J. Cataldo II, PhD CPA

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# Acknowledgements

I am thankful to the ***Seeking Alpha*** team for providing me with a forum and compensation for my work product. I also appreciate the ***Seeking Alpha*** followers providing comments and improving my decision-making with respect to investments. Special thanks to Timothy O'Malley. He took the time over the holidays to provide recommendations and feedback on earlier drafts. He made suggestions that I adopted.

# Preface



My interest in marijuana stocks began when I was doing some academic research, only to find that a portfolio of 40 marijuana stocks generated a return of 228% between January 2013 and January 2014. This return was much higher for firms incorporated in the state of Delaware (577%) when compared to firms incorporated in the state of Nevada (69%), but both exceeded same period returns for the Dow Jones Industrial Average (23%), the S&P 500 (25%), and the NASDAQ (33%) indexes. The article citation follows:

2014. Cataldo, A.J., T. Miller, G. Soltis & B. Halsey. Building and Testing a Portfolio of Marijuana Stocks: Why U.S. SEC Trading Suspensions Might Cause Some to Crash Before (or After) Reaching New Highs. *International Research Journal of Applied Finance* 5(9) (September), 1131-1147.

I wrote this book to help you make money. 2016 was a good year for me. Below are the results from a marijuana breathalyzer firm stock, where I closed most of my position in late 2016, for a 47.5% return:

Symbol	Security Description	Quantity	Basis	Proceeds
BLOZF	CANNABIX TECHNOLOGIES INC COMISIN #CA13765L1013 SEDOL #BQ0QTH9	233,632	91,505.01	134,965.19
<b>TOTALS</b>			<b>91,505.01</b>	<b>134,965.19</b>

While the above was a long-term buy-and-hold (Fidelity account), the below was a day-trade (TD Ameritrade account), over the 2016 Thanksgiving Day weekend, which means I held the stock for less than 4 trading days (trade day + 3 trading days or T+3), for a 97% return:

Security	Trans type	Qty	Open date	Adj cost	Close date	Adj proceeds	Adj gain (\$)	Adj gain (%)	Term
BAYPORT INTERNATIONAL HOLDI	Sell.FIFO	5,000,000	11/23/16	1,009.99	11/29/16	1,989.97	979.98	97.03	Short-term

You do not have to sit in front of the computer all day to make money in the stock market, and you do not need to have a lot of money. As the above illustrates, you can profitably trade \$1,000 or invest \$100,000. You simply buy the stock at a low price, and place a good til cancelled (GTC) sell order once your long position in the security is established. Whether you are a long-term buy-and-hold investor or a day-trader, this book will provide the tools to assist you as you examine publicly traded equity securities in the newly emerging and expanding recreational marijuana segment or sector of the U.S. economy.

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## Following My Work

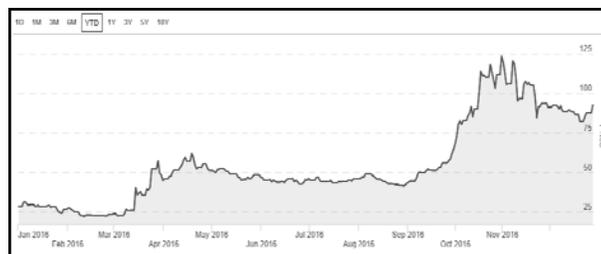
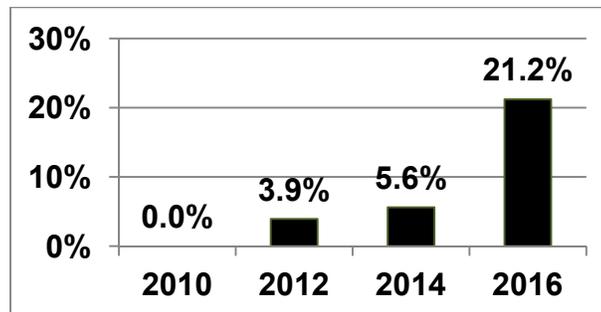
I do not maintain a separate website, but can be found on ***Seeking Alpha***, where I publish articles on marijuana stocks and make recommendations. I often provide feedback to those commenting or posting questions on marijuana stocks. Merely register as a user. There is no fee. They notify me, daily, of emails sent to me via their internal email system, and I will try to respond.

My biography is also available on ***LinkedIn***. I have used this site, primarily, to “chase down” internships and jobs for my students, and rarely log on. My university, now, has more than one internship for each accounting major or student, so I spend less time on this site, compared to prior years. They also forward emails to my home email.

# Why Invest in Marijuana Stocks?

**THE MARKET IS EXPANDING!** While more than half of the U.S. has legalized marijuana for medicinal purposes, it is the recreational use market that remains in its infancy. [1] Washington and [2] Colorado were the first 2 states to legalize marijuana for recreational use (November **2012**), followed by [3] Alaska, [4] Oregon and [5] D.C. (November **2014**), and most recently, [6] California, [7] Massachusetts, [8] Nevada, and [9] Maine (November **2016**) were added. Recreational use or legalization and decriminalization exist, presently, for more than 20% of the U.S. population:

1-Jul-15		
State	Population Estimate	Population Percentage
CA	39,144,818	12.2%
MA	6,794,422	2.1%
NV	2,890,845	0.9%
ME	1,329,328	0.4%
WA	7,170,351	2.2%
CO	5,456,574	1.7%
OR	4,028,977	1.3%
AK	738,432	0.2%
DC	672,228	0.2%
		<u>21.2%</u>



The above graphic illustrates the increased prices in North American marijuana stocks, leading up to and after the November 8, 2016 ballot measures ([marijuanaindex.com](http://marijuanaindex.com)). Additional states are likely to be added in November **2018**.

# Does State of Incorporation Matter?

Yes, for a long-term buy-and-hold; no, for a hold of several months or less or a day-trade. The primary consideration is the presence of less than preferable Nevada disclosure requirements (known as responsible for “the Nevada effect”), reverse splits, and toxic convertibles.

Academic research has determined that Delaware corporation stock prices tend to trade at a premium when compared to Nevada corporation stock prices. Delaware and Nevada are market share leaders in the “market for corporate law.” (I indicated whether a firm is incorporated in Nevada (NV), Delaware (DE), or Canadian with a U.S. cross-listing (CAN) in the listing of all stocks contained in the APPENDIX.)

These studies have been conducted and characterized as “race to the top” or a “race to the bottom,” where Nevada has provided for a corporate law that is more beneficial to executives and provides fewer protections for shareholders. Nevada corporate law attracts less than transparent management. They do this to generate tax revenues in the form of corporate filing fees.

Professor Michal Barzuza from the University of Virginia’s School of Law provides a contemporary [YouTube](#) video to explain these matters. I have also published in this area, where this condition is referred to and known as “the Nevada effect.” In the case of one firm incorporated in the state of Nevada, my research was used by the Securities and Exchange Commission in a [Court](#) case.

Recall the results from my **Preface**. January 2013 through January 2014 returns for marijuana stocks incorporated in the state of Delaware were 577%, while returns for marijuana stocks incorporated in the state of Nevada were 69%.

Will this always be true? No, but it is a significant variable to keep in mind.

Given the increased values of marijuana stocks and the spike in prices for these stocks leading up to the November 2016 elections, I would predict that the list of marijuana stocks will increase between now and November 2018, and the majority of new entrants will be incorporated in the state of Nevada. Many will be opportunists taking advantage of investors looking to “get rich quick.” This book should help you avoid many of the pitfalls associated with investing in this growing segment of the economy.

# What is a Convertible or Toxic Convertible or Death Spiral Financing?

A convertible is usually a debt instrument that can be “converted” to equity or stock. For example, assume that I loan a corporation \$50,000 when the stock is trading at \$1 per share. I could have purchased 50,000 shares at \$1, but I would prefer 10% interest. So, the corporation agrees to pay me 10% or \$5,000 interest, plus \$50,000 principal, in one year. We have to consider the possibility that the corporation will not have \$55,000 in one year, so I include a “conversion” clause.

My conversion clause states that, if the corporation does not have \$55,000 to pay the principal and interest in one year, they have to give me shares of stock at 80% of market value. So, if the stock continues to trade at \$1 per share, I would receive shares at \$0.80 per share:

Principal & Interest	\$55,000.00
Shares at 20% Discount	<u>\$0.80</u>
Number of Shares	<u>68,750</u>

A discount at 20% is very high, but high risk firms warrant high interest rates or heavy discounts for the conversion feature. I would characterize this as a “toxic convertible,” but they can get worse.

Let’s say the corporation is very desperate for cash. I offer them \$50,000, but, in this case, I do not even bother asking for interest. I just ask for shares of stock at a 40% discount. This is, clearly, toxic, and I would characterize this as “death spiral financing.”

This is all legal, and the corporation even discloses these terms in the footnotes to their financial statements. They rely on the fact that many do not read the footnotes to the financial statements, and, more often than not, they are correct. These firms do not care about the stock price declining...they just issue more shares. Effectively, they are “selling stock.”

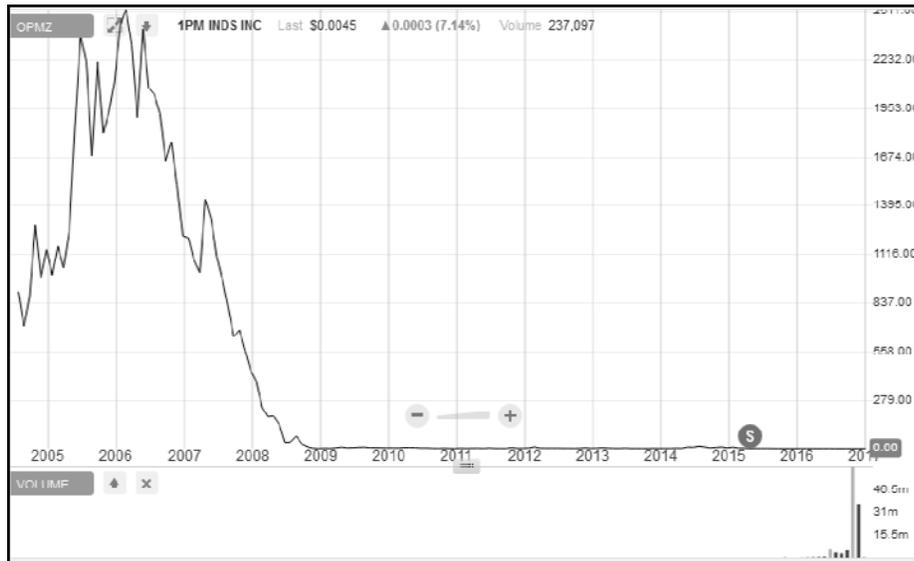
The important thing to understand is that you do not want to be holding this stock at 100% of market price or \$1 per share, when shares are being issued to someone else at 60% of market or \$0.60 per share. They are going to “dump” their \$0.60 per share holdings, the stock price is going to decline from your cost of \$1 per share, under selling pressure, and your holdings will decline in value. They, on the other hand, will make a tidy profit at any amount in excess of their cost of \$0.60 per share.

Will this always be true? No, but it is a significant variable to keep in mind.

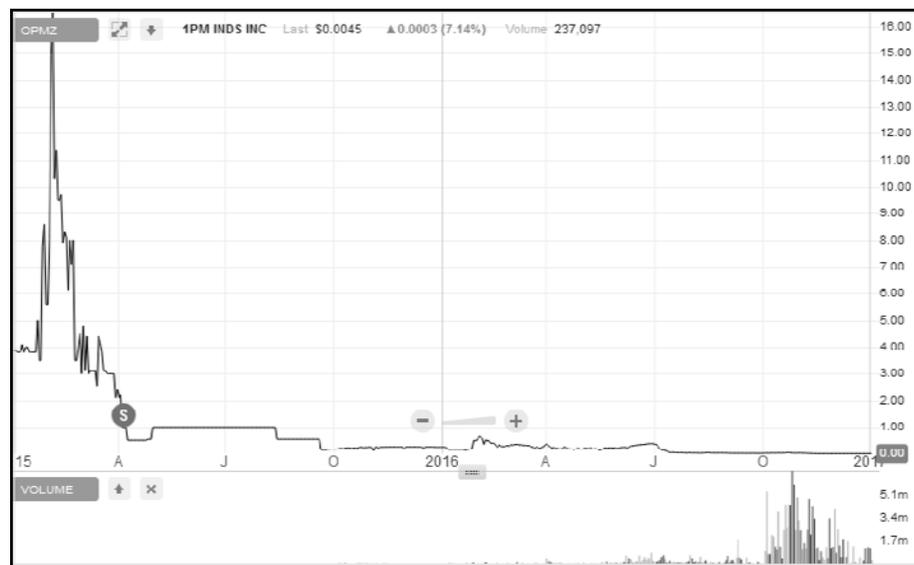
Some firms do these deals over and over and over, again and again and again. Frequently, in these cases, the creditor is an “insider.” They disclose this as a “related party” transaction. As long as they disclose it, it is not illegal.

# What is a Reverse Split?

Below is an example of a reverse split (RS), where the effective date was April 6, 2015 at a 1:1,000 share ratio. If you owned 1,000 shares before the RS, you owned 1 share after the RS. The below shows the entire history of the stock price-per-share (PPS):



The below shows a 2-year chart of the same RS:



Note that the stock price goes down, the RS occurs, and the stock price continues to decline. The chart, prior to the RS, has been adjusted to reflect the post-RS PPS for the entire chart period.

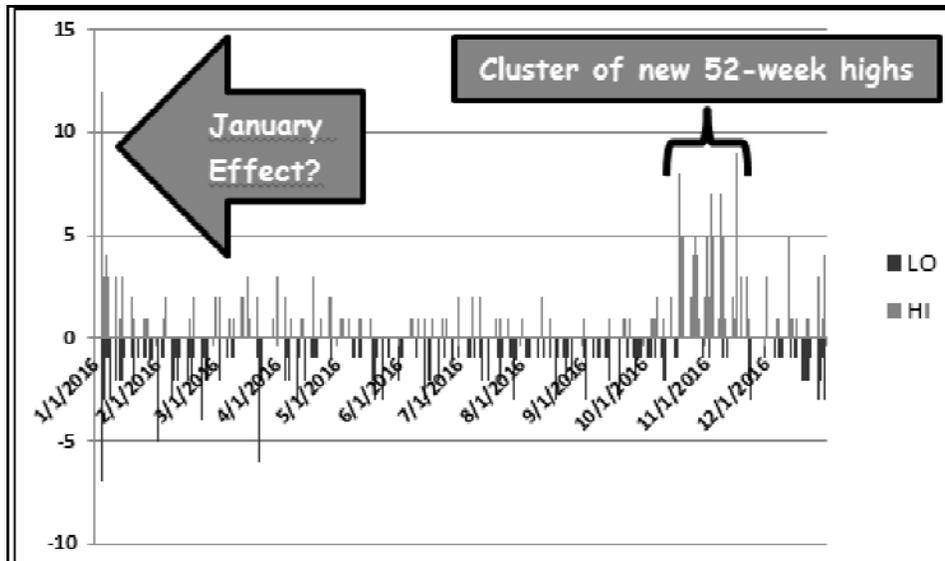
## **A Warning!**

View all marijuana stocks with great skepticism. This is a growing market with great risk and this “easy money” based on “irrational exuberance” attracts scoundrels. Gold attracted them on or about the year 2000. The marijuana sector of the economy is, now, attracting many ex-gold miners and others. You can make money by buying, holding, and trading stocks in the marijuana sector, but you must learn to avoid pitfalls, and I hope this book helps you.

## List & Charts for 231 Marijuana Stocks

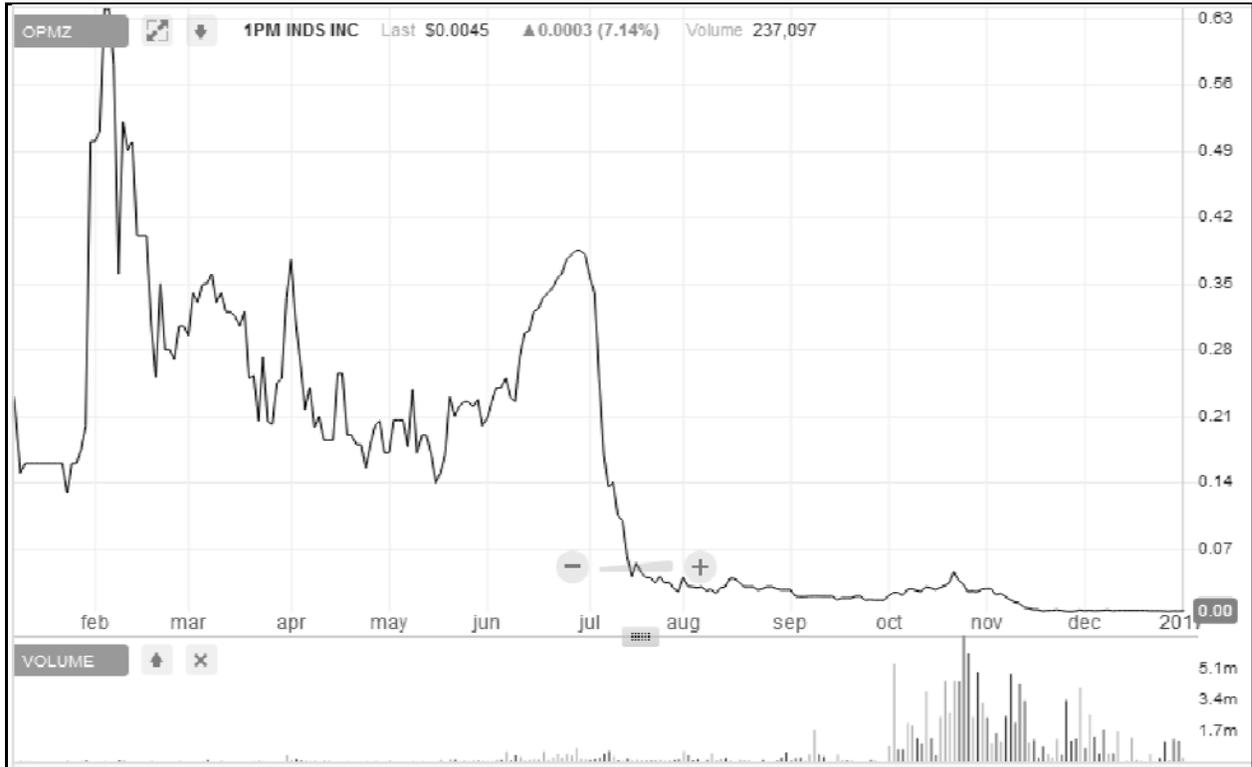
- All of these charts were produced on December 31, 2016 (Saturday) or January 1, 2017 (Sunday), and outside of any trading days. I did this to achieve consistency and comparability. I want to thank my **Seeking Alpha** followers for helping me in my efforts to make the list as complete as possible.
- I provide the [1] corporate name, [2] stock or ticker symbol, and [3] chart for the entire 2016 calendar year.
- You are not likely to short any of these stocks, as U.S.-based brokerages will not allow you to short a stock trading at less than \$5 per share, but, for completeness, I include this alternative in a few lines for you to print out the e-book or photocopy a page in the softbound book for your own [1] notes, [2] buy, [3] sell or [4] hold recommendations. Note: Any stock trading at less than \$5 per share is considered a “penny stock.”
- My favorite websites for stock research are [1] the **OTC Markets** website (charts and many fundamental values, including a history of reverse splits & corporate name changes), [2] the **Yahoo!Finance** website (charts and many fundamental values, including institutional ownership and short interest), [3] the **Seeking Alpha** website (charts and very good guidance from both professionals and novice long-term buy-and-hold investors), and [4] the **IHUB** website (charts and some good guidance, but quite a bit of noise to read through, still, a pretty good indicator of investor sentiment and a place where day-traders like to hang out).
- While I have made every effort to identify all marijuana stocks, I might have missed some. I, also, may have included some stocks that all do not feel should be classified as marijuana stocks. Opinions vary on these matters. I have attempted to produce the most complete list possible. **The Marijuana Index** is a site that I use, and it has only N=208 stocks listed, at this date, and some of those are duplicated and triplicates. **IHUB** has a cannabis stock site, and lists N=122 stock chat message boards for cannabis stocks. It should be easy to use this list, compiled at the end of 2016, as a starting point for additions, deletions, and modifications as we progress through 2017 and into 2018, and the next election.
- Use the 2016 charts as a reference point or base line, as 2017 progresses, keeping in mind that there was an upside over-reaction on or about November 8 – Election Day. There are N=231 stocks to select from, so do not be afraid to skip one possible buy-and-hold marijuana stock candidate for another. I will be using this “reference point” and data base to conduct additional analyses through 2017, and publish the results on **Seeking Alpha**. Remember, as you trade, capital preservation is the key!
- Below is a pattern that you will see in the charts that follow:

## Marijuana Stocks



- I have not removed weekends or non-trading days for the above chart (2016).
- The highest incidence of 52-week highs for N=231 marijuana stocks began on or about October 18, 2016, several weeks before the November 8, 2016, Election Day event date.
- The highest incidence of 52-week highs for N=231 marijuana stocks ended on or about November 16, 2016, about 1 week after the November 8, 2016, Election Day or event date.
- So, the highest clustering occurred within a 30-day window for 52-week highs.
- This is not to say these are “entry” points.
- In fact, it says the opposite, if you want to “sell high.”
- Sell at the 52-week high and rotate back in after the decline from the over-reaction.
- The same or a comparable should occur for the November 2018 elections, assuming that a significant number of states are on the ballot.
- You might also note the implication of a “dead money” period, which tends to coincide with slow periods for penny stocks, in general, during the summer months.
- Finally, note the very high incidence of new highs during the first week in January.
- While I do not include the prior year November and December data, this looks like January 2016 began with a January effect – we’ll see if it occurs, again, for 2017.

#1 – 1PM Industries, Incorporated (OPMZ)



Notes: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

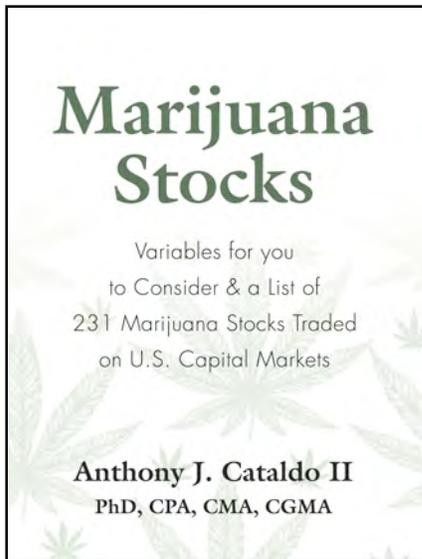
Is a reverse split likely? If yes, do not buy.

- Buy (Long)
- Sell (Short)
- Hold

# Anthony Cataldo's Other Books & Academic Monographs

1. Nontaxable, Like-Kind Exchanges Under Internal Revenue Code Section 1031 (2006)
2. Tax Planning Strategies for the Self-Employed, 3rd Edition (Continuing Education course from 2005-2009 licensed for Realtors® in 16 states) (2002)
3. The January Effect and Other Seasonal Anomalies: A Common Theoretical Framework (Elsevier Science/JAI Press) (2000)
4. U.S. Individual Federal Income Taxation: Historical, Contemporary, and Prospective Policy Issues (Elsevier Science) (2001)
5. Information Asymmetry: A Unifying Concept for Financial & Managerial Accounting Theories (Elsevier Science) (2003)
6. Introductory Financial Accounting (2015). [http://digitalcommons.wcupa.edu/acc\\_texts/1](http://digitalcommons.wcupa.edu/acc_texts/1).
7. Financial Accounting and Reporting (2017). Yaeger. Lead author. Forthcoming.

If you would benefit from an “open source” introductory book on financial accounting, go to this website to download: [http://digitalcommons.wcupa.edu/acc\\_texts/](http://digitalcommons.wcupa.edu/acc_texts/). It downloads best by separate chapters.



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