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How to invest in legalized marijuana

By Quentin Fottrell

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Mark Twain is said to have remarked that a gold rush is a good time to be in the pick and shovel business. Investors may be able to apply that same bit of wisdom to the growing number of U.S. states that have legalized pot.

Although federal law prohibits the sale or possession of marijuana, Massachusetts last week joined the ranks of states — 18 plus Washington, D.C. — that allow its use for people suffering from chronic illnesses like cancer, HIV/AIDS, multiple sclerosis and epilepsy. In Washington and Colorado, meanwhile, voters passed an initiative to allow pot for recreational use.

Those changes have kickstarted a small but fast-growing medical-marijuana industry, estimated to be worth about $1.7 billion as of 2011, according to See Change Strategy, an independent financial-analysis firm that specializes in new markets. In Colorado alone, sales topped $181 million in 2010, and the business employed 4,200 state-licensed workers, says Aaron Smith, executive director of the National Cannabis Industry Association , a nonprofit trade group that campaigns for marijuana's federal legalization.

In addition to profiting itself from growing and selling marijuana, the industry benefits a slew of other businesses, such as insurers, lawyers and agricultural-equipment firms, experts say. "Call it the 'green rush,'" says Derek Peterson, CEO

How to invest in legalized Marijuana

Several states made recreational use of marijuana last week, and there are several small-cap stocks that stand to gain from the drugs growing acceptance. Photo: AP.

of GrowOp Technology, an online retailer of hydroponics — products used in the cultivation of indoor plants — and a subsidiary of OTC stock Terra Tech (OBB:TRTC) . “The industry is expanding, and there are all kinds of investment opportunities.”

For regular investors looking to get in on the action — and without having to actually grow or sell drugs — there are several small-cap stocks that stand to gain from marijuana’s growing acceptance. Medbox (OTN:MDBX) , an OTC stock with a $45 million market cap, for example, sells its patented dispensing machines to licensed medical-marijuana dispensaries. The machines, which dispense set doses of the drug, after verifying patients’ identities via fingerprint, could potentially be used in ordinary drugstores too, says Medbox founder Vincent Mehdizadeh. Based in Hollywood, Calif., the company already has 130 machines in the field, and it expects to install an additional 40 in the next quarter. “The smart money is trying to help with compliance and transparency,” Mehdizadeh says.

Expelled U.S. Olympian: Yeah, I ate marijuana

Nicholas Delpopolo becomes the first U.S. Olympian in London to be disqualified for failing a drug test.

Of course, investing in drugs the federal government still outlaws poses enormous risks to investors, says Sam Kamin, a law professor and the director of the Constitutional Rights & Remedies Program at the University of Denver. In fact, nearly 500 of the estimated 3,000 dispensaries nationwide have either been closed by the federal government or shut down in the past year, says a spokesman for StickyGuide.com , an online directory and review site for medical marijuana dispensaries — and yet another ancillary business that’s currently seeking investors.

That said, there are many companies that appear to be betting on a change in federal law. Steep Hill is a quality-control laboratory that tests medical marijuana to see if there’s any contamination from mold, bacteria or harmful pesticides. The company, based in Oakland, Calif., is also actively seeking funding of up to $3 million. David Lampach, co-founder and president of Steep Hill, expects a federal law legalizing medical marijuana within the next decade. Cannabis Science in Colorado Springs, Colo. (OTN:CBIS) , an OTC stock with a market cap of $41 million, is developing marijuana-based medicines to help cancer and HIV/AIDS patients. “We’re at the beginning of the revolution in medicine,” says CEO Robert Melamede.

Other companies are creating a range of quirky products that allow people to use marijuana without smoking it. Medical Marijuana (OTN:MJNA) , an OTC stock with a $69 million market cap, based in San Diego, Calif., offers more than 50 ways to ingest marijuana , from Dixie Elixir soda to Dixie Chill ice-cream and a range of Dixie Edibles, like chocolate truffles and crispy rice treats.

While experts say competition in the medical-marijuana business is growing fast, they add that there are also still plenty of opportunities for entrepreneurs. For example, Troy Dayton, president and CEO of ArcView Group , an angel investor network for the industry, says demand has been growing for handheld tobacco vaporizers like those made by Ploom (which charges $250 for its “premium loose-leaf vaporizer”). “There’s a rush now to make the ideal vaporizer,” Dayton says. “There’s still room for a kingmaker in this space.”

In the meantime, at least one drug company is directly selling medical marijuana to patients around the world. GW Pharmaceuticals (OTN:GWPRF) , based in London, markets Sativex, billed as the world’s first marijuana-based medicine. With a market cap of around $137 million, it’s listed on the Alternative Investment Market, a submarket of the London Stock Exchange. Sativex is currently sold as a mouth spray to help alleviate symptoms of multiple sclerosis in several countries, including the U.K., New Zealand, Germany, Spain, Denmark and Canada, a spokesman says, and it is currently seeking FDA approval in the U.S. for use as a pain reliever in late-stage cancer patients.

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Marijuana-dispenser stock gets too high

By Quentin Fottrell

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A company that creates medical-marijuana dispensing machines says its stock is getting way too high.

Medbox (OTN:MDBX) shares surged 3,000% this week -- from roughly $4 Monday to $215 Thursday -- before falling to $100 after executives sought to dampen investor enthusiasm.

In a news release today, the company said that the stock's rocket launch, which sent its market cap skyrocketing from $45 million at the start of the week to a staggering $2.3 billion, was ignited by a MarketWatch story Tuesday on how to invest in legalized marijuana (see How to invest in legalized marijuana .) (That's about double the market capitalization of retailer Jos. A. Bank Clothiers.) The stock, which fell around 50% in early trading Friday, still hovers at $100. "We believe an appropriate trading range is between $5 and $10 but, alas, the market will do what it will do," says Medbox founder Vincent Mehdizadeh.

At the height of trading this week, $600,000 to $700,000 worth of purchases were made, an unusually high volume for a company of this size. "It was astonishing," Mehdizadeh says. "We couldn't really understand why that was happening other than that there was a high demand for stock with limited supply." It was "thin volume," but Mehdizadeh says he doesn't know whether it was one hedge fund or several big buyers.

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The company says it's also investigating ways to minimize any potential shareholder losses. Medbox is in discussions with its attorneys to see if it can reward early investors with company-owned shares should the price they bought at in recent days fall significantly. "We don't want those investors to have sour feelings about what happened," Mehdizadeh says. "Obviously day traders are having a field day lately trading our stock."

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But it's very risky to invest in drugs prohibited at a federal level, experts say. Nearly 500 of the estimated 3,000 dispensaries nationwide have closed or were shut down by the federal government in the past year, according to StickGuide.com, an online directory for medical marijuana dispensaries. Currently, Medbox has 130 dispensers in the field and is due to install 40 more next month, and says it's looking at the broader pharmaceutical market.

While the rush investors got from the company's wild surge this week may be matched in coming years, the Hollywood, Calif.-based company says it is confident in its future prospects. Medbox reported a third-quarter revenue of $1.3 million, up from $850,000 in the second quarter. Medbox forecasts revenue of $24 million by the end of the fiscal year 2014 and $48 million by the end of fiscal 2016. It expects earnings before interest, depreciation and amortization to remain at a "healthy" $10.2 million and $22.1 million during those periods. "Real companies don't need hype," Mehdizadeh says.

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"We feel within 10 years we could legitimately have share prices hit $215 again," Mehdizadeh says. Currently, there are around one million shares available for trade and, this time next year, he says there will be another one to two million shares trading. Although the company focuses primarily on medical marijuana, he says the temperature-controlled dispensing machines could also be used in prisons and 24-hour drug stores for a larger range of drugs.

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