Pot Stocks

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The global posterchild for 'investing' in companies that produce cannabis products for medicinal use is listed in Canada. It is called **Canopy Growth** and its stock code is, you guessed it, WEED. Below is its share price chart over the past 10 years.

Source: Refinitiv

One of the problems with putting money into any stock driven by a fad with low or no barriers to entry is that it tends to invite lots of new competitors. 'Pot stocks', as they are known collectively, have come a cropper in 2019, because the reality on the ground is that (a) customer demand is lower than expected and (b) supply growth is higher than expected. As any economics 101 high school student should know, the combination of too much supply with too little demand leads to lower prices and lower profits or even losses. Canopy Growth has *never* made a profit and in the past 5 years its annual losses increased from C$7mn in 2015 to a substantial C$685mn in 2019. Ouch!

One of South Africa's perennial fad companies, (currently) called **Labat Africa**, has eked out a *cumulative* profit of R7mn between 1994 and 2019 and has never paid a dividend to its shareholders. I first became aware of this company when it invested in, of all things, a semiconductor manufacturing plant based in South Africa around the time of the global Y2K tech bubble. Labat announced in September 2019 that they are raising capital by issuing shares at an amazing 3 times the latest share price in order to buy a 70% stake in a cannabis operation in the Kingdom of Lesotho. Upon closer look, this cannabis operation appears to currently consist of only the licenses to operate, with no manufacturing facilities, employees nor a single cannabis plant or seed in sight yet.

Our work continues...

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