



# PAUL COHEN'S

## *Marijuana Hub*

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### HOW TO MAKE MONEY IN THE MARIJUANA STOCK MARKET

#### WHY THE COLLAPSE OF THE MARIJUANA STOCK MARKET?

- ▶ Year to date the market is down 24% measured by the Cohen Grassroots Marijuana Index of 275 companies. About 95% of all penny stock traders trade between \$5,000 and \$15,000. Stock market mechanics are one reason for this disaster.
- ▶ Traders cannot short marijuana stocks as a practical matter. Market makers can short these stocks and in all too many cases, control share prices of some stocks. As the market goes down, traders short these stocks in their own accounts.
- ▶ There is a 100% short sale margin requirement at major brokerage firms to short marijuana stocks. Hedge funds can put up money if a marijuana stock can be borrowed, which is seldom. Retail investors don't have the cash to short stocks and restrictions are too severe. Thus in a down stock market, retail investors cannot make money on the short side.
- ▶ Pershing, one of the nation's largest clearing firms has restrictions on marijuana stocks and penny stocks under \$0.10 cents. FINRA has placed restrictions on brokerage firms regarding penny stocks, crippling trading.
- ▶ Brokerage firms on balance will not let their brokers recommend or traffic in marijuana stocks.
- ▶ It is just about impossible to clear 144 marijuana shares or shares converted by convertible securities through on-line trading firms. This chokes issuing companies from financing themselves, often times resulting in toxic convertibles at huge discounts that when converted, knock down a given stock because stock is sold as a result of debt conversion.
- ▶ Capital structures of the majority of marijuana companies are bloated with shares outstanding, making value by Discounted Cash Flow (DCF) analysis minimal.
- ▶ As a result, liquidity and trading in this market has been severely crippled. If there is little liquidity, small companies cannot finance themselves and will go out of business. Surprisingly, we find most business models are quite good.
- ▶ In a down market where fundamentals are poor, traders head for the hills and stocks go down without any meaningful buying power behind them. Hence, the cannabis stock market gets crushed and continues downward.