

Marijuana-Related Investments: Greener Pastures or Just Another Scam?

You know the pitch – “Don’t miss out on this once-in-a-lifetime investment opportunity with greener pastures right on the horizon!” Investments in start-up marijuana business ventures are becoming more prevalent and are receiving increased media coverage. Scammers are using the media excitement to convince investors to hand over money for risky or outright fraudulent marijuana ventures that disappear, along with investors’ money.

How do you invest in marijuana?

Similar to investments in any other business venture, promoters solicit investor funds in exchange for stock in a company, bonds or debentures, promissory notes, or other instruments that promise a return on the investment. Given the rapidly changing laws concerning marijuana, even an investment in a legitimate marijuana business may have extra risk. Scammers frequently use the latest “hot product” on the market to drive up interest and lure investors to get in on the “ground floor” of the next huge investment opportunity.

Common marijuana investment schemes

- **Reverse Merger Scam:** The marijuana company’s promoters buy the stock of a publicly traded company that has no assets or current operations. The promoters use the public listing to create a false sense of security surrounding the marijuana business, and unscrupulous brokers collect commissions selling the stock to investors.
- **Pump & Dump Schemes:** A “Pump & Dump” scheme occurs when scammers use misinformation or tout an investment to pump up the price of a security and then dump their shares when the price gets high enough to turn a profit, leaving innocent investors holding with potentially substantial losses.
- **Crowdfunding Schemes:** Marijuana-related companies may try to use new crowdfunding rules to raise capital from a broad base of investors using the internet. Even without any fraudulent intent from promoters, these investments tend to be in risky, undercapitalized start-ups.
- **Jurisdiction-Specific Illegal Marijuana Schemes:** Scammers may make promises about insider information concerning a new law or regulation that will legalize marijuana in a jurisdiction where it is currently prohibited. Investors may be encouraged to “get in now,” buying low and making huge profits when a new law or regulation is enacted. In reality, there may not be any new laws or regulations pending, allowing the scammers to take the money and run.

Unique risks of investing in marijuana businesses

Legality: Marijuana is not legal everywhere. The investment opportunity being pitched may be operating illegally in a jurisdiction that does not allow marijuana use. The law regarding the marijuana industry is evolving and varies across jurisdictions. While some jurisdictions allow medicinal or recreational marijuana use, the U.S. government still prohibits its use. A business operating across jurisdictions may be legal in one jurisdiction and illegal in another.

Start-up Risk: Even if marijuana is legal in a jurisdiction, and the promoters have no fraudulent intent, most marijuana-related investment opportunities are in high-risk start-up ventures with a significant chance of failure.

How to Protect Yourself

- **Ask questions:** Is the investment registered or exempt from registration? Check the SEC's EDGAR database or follow up with your state or provincial securities regulator.
- **Research:** Look at the company's business history before considering a publicly traded stock in a marijuana related company.
- **Avoid pressure:** Carefully evaluate the merits of the investment to ensure it matches your investment objectives and risk tolerance.
- **Be wary:** Do not rely solely on press releases, emails, internet chatter, or cold calls promoting a company you've never heard of.
- **Verify:** Check for required licenses and registrations, and ask a trusted, registered investment professional for help before you turn over your hard-earned savings. Agents who raise money from investors need to be registered or properly exempted from registration with state or provincial securities regulators.

The Bottom Line

Before making any financial decisions, ask questions, do your homework and contact the Nebraska Department of Banking and Finance at 402-471-3445.

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