

CLEARING THE AIR ABOUT CANNABIS INVESTING

November 28, 2018

Canadian cannabis companies' stock prices have skyrocketed in recent years as several jurisdictions have explored new laws around the sale and use of cannabis. The legalization of cannabis in Canada in October 2018 drew further attention and interest to the sector. In the past few months, however, industry insiders and analysts have expressed concern about whether cannabis companies' stock prices have raced ahead of their growth prospects.¹

In October 2018, the Ontario Securities Commission (OSC) Investor Office commissioned a survey of over 2,000 Canadians from across the country that sheds light on how retail investors have reacted to recent developments in the cannabis sector.

7%

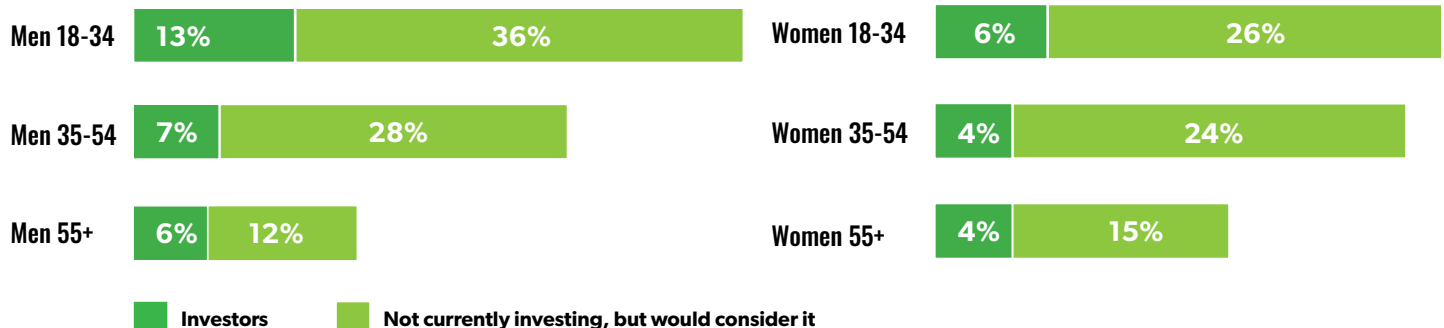
Currently own cannabis investments

23%

Don't currently own, but would consider buying in

WHO'S MOST LIKELY TO INVEST?

In [Taking Caution](#), our June 2018 study on cryptoassets, we found that men aged 18-34 were more likely to own cryptoassets than any other demographic group. It appears men in this age group are also the most likely to invest in the cannabis sector, as well as the most likely to express interest in investing in the sector:



SEVERAL FACTORS GIVE RISE TO CONCERN ABOUT THE RISKS RETAIL INVESTORS ARE TAKING IN THIS EMERGING SECTOR:

Nearly 1 in 4 cannabis investors reported spending \$10,000 or more on their investments.

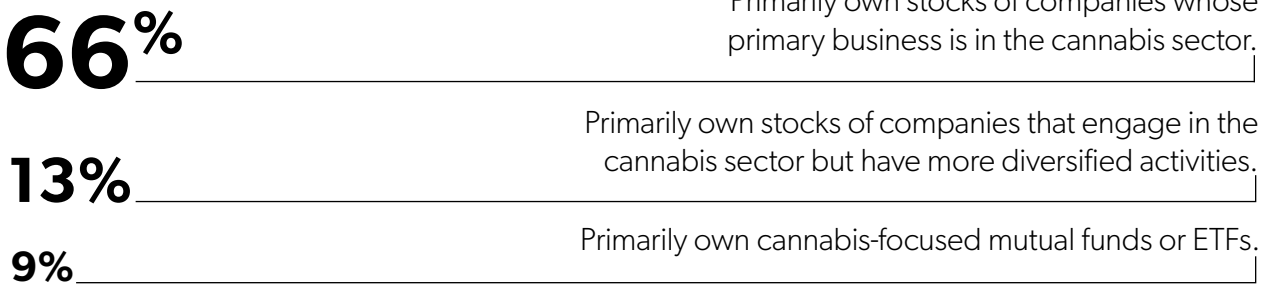


Don't know (9 per cent) not shown.

Cannabis investing rates didn't vary based on reported risk tolerance or financial knowledge.

Those with low financial knowledge or who reported having a low risk tolerance were as likely as individuals with higher knowledge or risk tolerance to own cannabis investments.

Cannabis investors tended to choose undiversified investments in the sector.



Other (6 per cent) and don't know (6 per cent) not shown.

3 in 10

(28 per cent) invest in U.S. cannabis companies, mutual funds, or ETFs, despite continued legal uncertainty with respect to the cannabis industry in the United States.

Note: This survey question asked about respondents' primary cannabis investments. Investors may hold diversified investments in other sectors.



WHAT DRIVES PEOPLE TO BUY INTO TRENDY INVESTMENTS?

Behavioural insights show that some investors may be predisposed to seek out and buy into the latest, most popular investments—and may do so even if these investments don't fit their long-term financial goals. These investors may overestimate their risk tolerance and might not diversify their investments enough.

Our survey results indicate that many cannabis investors entered the sector recently, and that word of mouth was a key source of information:

1 in 3 first bought cannabis investments under six months ago.

32% relied (at least in part) on advice from friends and family when making a purchase—by contrast, 18 per cent relied on advice from a financial representative or portfolio manager.

We observed similar patterns with respect to cryptoasset owners earlier in 2018.

CHASING TRENDS CAN BE EXCITING, BUT IT'S IMPORTANT TO MAKE A LONG-TERM PLAN AND STICK TO IT.

Before making an investment, think about whether and how it fits into that long-term plan, and make sure you think about risks as well as opportunities.

The OSC is here to help:

- Our investor website, [GetSmarterAboutMoney.ca](https://www.getsmarteraboutmoney.ca), has resources that will help you learn more about [cannabis investments](#), [how to plan for your financial future](#), and [how behavioural biases might influence your investing habits](#).
- The OSC Inquiries and Contact Centre is also available to answer your questions about investing, or any concerns or complaints you have about investments, at 1-877-785-1555 or inquiries@osc.gov.on.ca

About the Survey: The OSC Investor Office engaged Innovative Research Group Inc. (Innovative) to conduct a survey to, among other things, better understand Canadians' investment practices as they relate to cannabis investments. The survey was conducted online among a representative sample of 2,259 Canadians, 18 years of age or older, between October 11 and 22, 2018. The sample has been weighted down to n=2,000 by age, gender and region using the latest Statistics Canada census data to reflect the actual demographic composition of the adult population 18 years of age or older residing in Canada. Since the online survey was not a random probability-based sample, a margin of error cannot be calculated. The Marketing Research and Intelligence Association prohibits statements about margins of sampling error or population estimates with regard to most online panels.

¹ See, e.g., Kristine Oworm and Craig Giamonna, "Canadian Weed Stocks Might Be Too High," *Bloomberg* (September 12, 2018), <https://bloom.bg/2OvZkQ8>; Chloe Aiello, "Retail investors Canadian cannabis are 'buying air,' analyst says," *CNBC* (September 19, 2018), <https://cnb.cx/2ySSclE>.