

Here Come New Alternatives for 2018

Two non-traditional markets are gaining traction with institutional investors

By Matt Osborne

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Don't be surprised if you see some eccentric entrepreneurs as the star panelists at your next alternative investment conference in 2018. As they widen the search for alternatives, hedge funds and private equity fund managers are looking harder at unconventional sources of potential profits like marijuana dispensaries and virtual currencies.

Alternative investments made their reputation being opportunistic and finding unusual ways to profit. As the bull market juggernaut remains a factor into 2018, hedge funds will be prompted to look elsewhere for alpha. Private equity funds, meanwhile, are flush with cash, but challenged by rising asset prices; they're searching beyond their usual hunting grounds.

Two new markets have moved to the top of that search: cannabis and cryptocurrency. Each is rising independently, but their interrelated nature could push the investment case for each higher.

Beginning in January 2018, California will join 28 other states in allowing adults to buy marijuana for both medicinal and recreational purposes. Observers estimate that North American legal sales of marijuana, for medicinal and recreational use, will grow 27.5% annually, to reach more than \$24.4 billion in 2021, up from \$7.2 billion in 2016.

There is now a U.S. Marijuana Index that tracks cannabis stocks—and marijuana-related ETFs are gaining momentum. Privateer Holdings, the first private equity firm focused on the global cannabis industry, has secured a large investment from Founders Fund, a renowned venture capital firm based in San Francisco.

But the industry is still unsettled and facing regulatory challenges. Federal law has allowed states to pass laws permitting marijuana use, but it remains illegal at the federal level. Traditional banks have kept clear of financing the industry, forcing marijuana dispensaries to deal on a cash-only basis.

The marijuana industry's problem handling cash has opened the door of opportunity for digital currencies. The blockchain or cryptocurrency, bitcoin, is now becoming a viable payment option at many marijuana dispensaries, where customers can decide to pay in cash or cryptocurrencies via credit card processing systems. And there are also cryptocurrencies relegated just to the cannabis industry itself, such as PotCoin.

The appeal of cryptocurrency in the cannabis market



and others has not been lost on hedge fund investors. Mike Novogratz, former macro hedge fund manager at Fortress Investment Group, left to start Galaxy Investment Partners, which is actively exploring investments in cryptocurrencies and related blockchain businesses.

While many remain uncertain about the un-bankable cannabis and cryptocurrency businesses, even the CEOs of Wall Street's largest banks have challenged the critics. As Lloyd Blankfein CEO of Goldman Sachs, recently tweeted, "folks also were skeptical when paper money displaced gold."

As the search for market-beating yields and uncorrelated assets takes investors down uncharted paths, the ability of advisors to vet these opportunities will come into play. ■

Matt Osborne is Co-founder and Chief Investment Officer of Altegris.

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