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**Financial &
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Fiduciary Management

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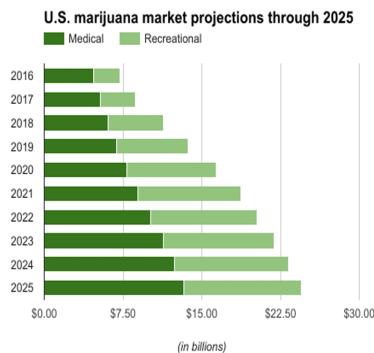
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Note that all performance numbers are based upon model portfolios without deposits or withdrawals (Time Weighted Returns).

Actual client account performance will vary with the timing of deposits or withdrawals, cash balances held for payment of fees, and short-term trading charges within 90 days of plan startup.

The results provided are historical and can not be used to predict future investment results. This document is intended for the use of current clients only.

Investing in the Cannabis Industry



Source: *The Cannabis*

Driven by both increasing demand and the legalization of recreational and medical marijuana, lawful cannabis revenue worldwide is expected to reach \$57 billion in a decade. In the U.S., it is projected to hit \$23.4 billion by 2022 (source: *Yahoo! Finance*). Clearly, the marijuana industry is growing, and investors are excited by its upside potential. Yet, given all the hype, is it really a good investment or just “reefer madness?” Before allocating funds to this emerging industry, one should consider both the pros and the cons. Here are several arguments in favor of the cannabis sector:

- **The industry is in its infancy.** By investing now, one can get in on the ground floor. As sales and revenues of pot producers continue to grow and expand, a small investment today could be worth several times your initial outlay.
- **Legalization will continue to pick up steam.** Currently, 10 states plus Washington, DC have legalized recreational marijuana. Canada passed a full legalization in October of 2018. As we’ve seen with the movement to legalize gambling, cash-strapped municipalities are decriminalizing pot in order to increase tax revenues. As the legal roadblocks to cannabis use continue to fall, demand will certainly increase.
- **Major beverage companies are aligning themselves with cannabis growers** by developing their own brands of THC or CBD infused drinks for mass consumption. These moves will not only help to expand the industry, but they will give it added legitimacy.

While the fundamental story seems promising, one must recognize that there are investment challenges, which are quite similar to those faced by investors during the dot-com boom including:

- Many cannabis producers are **start-up companies with no historical performance**. Without an extensive track record, it’s difficult to properly

analyze their business models, earnings potential, and management capabilities. Additionally, Wall Street hasn't even settled on industry-specific metrics, so even as data becomes available, it's difficult to measure results. Thus, press releases and headlines tend to be the main movers of cannabis stocks today.

- Because of the current speculative fever, many of these **companies are trading at values that far exceed their earnings potential**. While their defenders argue that explosive future growth will justify the high valuations, a prudent investor should view these claims with a healthy dose of skepticism.
- There will be winners and losers with the **potential for huge gains or big losses**. As happened during the dot.com boom, a handful of companies turned out to be great investments while others went out of business or were acquired for a fraction of their IPO price.

If you think you might want to allocate funds to the cannabis industry in spite of these challenges, what would be the best way to do so?

- Treat any foray into the industry as a **speculative investment**, i.e., only deploy funds that you are willing to lose, and make sure this investment is only a small slice of your overall portfolio.
- Consider **investing in established companies**. While the major players may not deliver the super-charged returns of smaller, more speculative companies, they would be a safer way to participate in the growth of this market sector.
- For those who like the idea of owning a diversified portfolio of cannabis companies while avoiding the risk of putting all your chips on just one or two companies, **consider investing in a cannabis-focused ETFs**. This approach will enable you to invest both in established companies as well as in more speculative names.

Legalized cannabis is presenting interesting opportunities for investors. Should it be decriminalized on the federal level, it would become a more significant part of the US economy. In the meantime, investors can profit from this emerging industry, but they should do so in a cautious and prudent manner.

Whole Life Insurance: Cash It in or Take a Loan

Recently, an acquaintance of one of our clients posed a question to us about his \$100,000 paid-up whole life insurance contract. ***Is it better to cash in the policy or take out a policy loan?*** Before answering this question, here is this individual's situation. He originally took out the insurance to protect his wife and kids in the event of his premature death. Now that he's in his 70's, and with his house paid off and his children grown and out on their own, he reckoned that it would be better to use the cash value now rather than leave it to his heirs.

Our reply was that under most circumstances, **we do not usually recommend cashing-in whole life policies.** The rationale for this is that the cash value of some policies may grow at a healthy fixed rate of return; any insurance on top of this is a bonus. Also, if the surrender value of the contract exceeds what you put in, there can be a taxable gain on surrender. ***To decide what to do, you need to request an “in-force” ledger and a “policy status” including any possible taxable gain.***

Alternatively, you can access the cash value as a policy loan. These loans are taken from the policy’s built up cash value and never need to be repaid. Essentially, the insurance company “loans” you a good amount of the policy’s cash value and then charges you interest on the loan (the rate is written into the policy). If the owner should die before the loan is repaid, the loan amount plus any accrued interest is deducted from the death benefit. What remains is paid out to the beneficiary named in the policy. Also, unlike an unpaid bank loan, your credit rating is never adversely affected.

Now for a cautionary note. In the example above, the policy was “paid-up,” meaning that no further premiums were required to keep the insurance policy in force. If one were to take out a loan on a policy that is **not** paid-up, and if the policy owner subsequently fails to pay the premiums or loan interest needed to keep the contract active, the policy would lapse so you could have some taxable gain and lose any residual death benefit.

If you have a whole life policy, paid-up or not, and you would like to know your options, we’d be happy to investigate and outline them for you.

CION Ares Fund Notice

On a quarterly basis, many of our shareholders receive “Time Critical” paperwork from Charles Schwab & Co., referencing our client’s ownership in the CION Ares fund¹. Included in the paperwork is a formal *Notification of Repurchase Offer* and a form to fill out. Naturally, we field several calls about this notice each time it is sent out, so we thought a brief explanation in the newsletter might be helpful.

Unlike the other mutual funds that we currently use in our model, the CION Ares fund only allows redemptions one day per quarter. There are two reasons for this restriction. First, the portfolio is ***partially invested in illiquid credit instruments.*** This sales limitation gives the loans time to mature. And second, by restricting redemptions the fund’s managers can ***better coordinate the portfolio’s cash flows.***

As of 04/01/2019, the 1-year total return was over 6.6% and the year-to-date return was over 4.1%. The fund currently targets yields over 5%. So, while the fund’s limited liquidity is an inconvenience, we have been willing to deal with it given the results the fund has delivered for our clients. Lastly, if you no longer wish to receive Schwab’s repurchase notice, please call Ed at the office and he’ll send you a form for you to sign.

¹This fund is used as example only, and our citing it should not be taken as a recommendation to

buy or sell this or any security. Also, past performance is no guarantee of future returns.

Rosemarie, John, Peter, and Ed