



# Let's Toke Business



February 23, 2024

What does a remarkable Artificial Intelligence/Nvidia driven market mean to you?.....	p 2
Canadian Cannabis Act review could be positive for licensed producers.....	p 3
Cannabis stocks hanging tough.....	p 4
Question of the Week.....	p 4
The Cannabis Report Model Portfolio.....	p 4
<b>Special Report:</b> Analyzing the implications of Nvidia confirming the AI industry.....	p 5
Why isn't Predictmedix AI joining in the record setting rally in Artificial Intelligence stocks?.....	p 6
Updates of Lexaria, 1933 Industries, Predictmedix AI, Jushi, Organigram and Khiron.....	p 8
Health Canada issues one new license for an adjusted total of 977.....	p 9

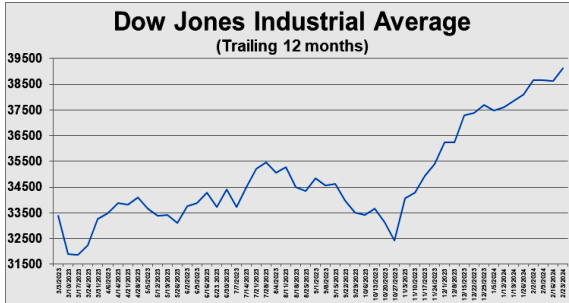
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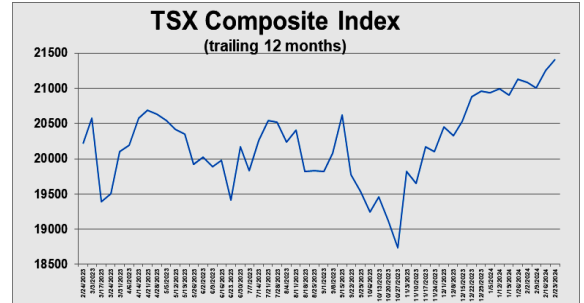
## Stock Market Review & Outlook

**LTB MARIJUANA INDEX: 1wk -0.3% 1 mo -0.1% 3 mo -8.3% 6 mo -18.1% 1 yr -45.5%**

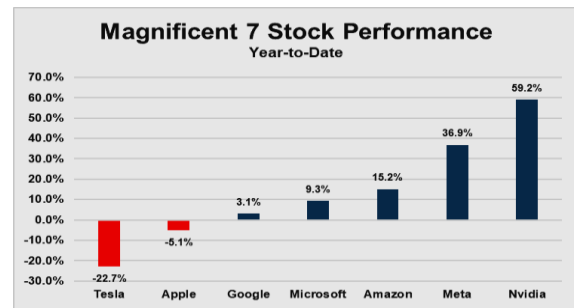
It was a remarkable week in the markets as one company, Nvidia (NASDAQ: NVDA) turned the markets all on its own. I provide a more detailed assessment below but in a nutshell, NDVA, the



Artificial Intelligence bellwether, reported better than expected revenue and earnings after the close on Wednesday triggering a strong rally on



Thursday that pushed the markets back into uptrends. The results so dominated the news, investors seemed to completely overlook the Federal Open Market Committee (FOMC) minutes that provided

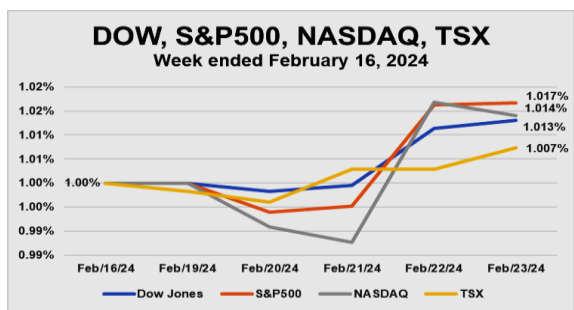


clues that interest rate declines will probably not occur until the summer. The next chart shows the performance of the Magnificent 7 or as some pundits are starting to call them, the Fabulous 5. I think it is sensible to expect overall returns for the Magnificent 7 will be positive but less than 2023 on average and to anticipate more volatility. But the NVDA results gave the markets confidence that the AI boom is for real and we are not at the bubble stage yet

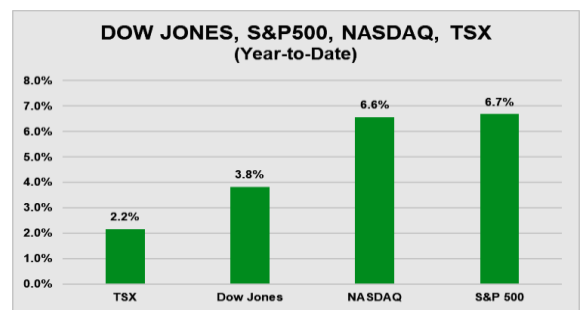
although the valuations are high.

As a heads-up, the Personal Consumption Expenditures Price Index will be released on Thursday. This is the Federal Reserve's preferred inflation measure and the street will be watching for signs that this index is showing indications of rising inflation. If it does, watch out as the market could correct.

The chart below left plots the performance of the markets in what was a most boistrous week. As the chart below shows, the major indexes all finished higher in a holiday shortened week. You will note



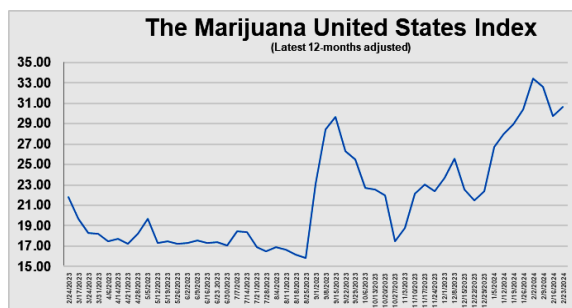
the indexes had been drifting lower prior to a strong rally on Thursday. I will explain the details in more detail below. The chart



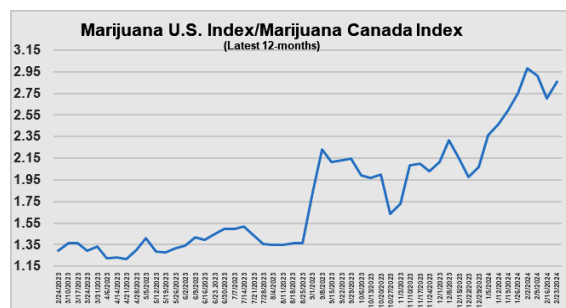
to the right shows the major markets remain in positive territory so far in 2024. I believe the markets

will remain positive in 2024. The overall returns may not be as high as they were last year which means individual security selection will become increasingly important.

Last week I reported to you that the cannabis indexes had been falling and if the correction continued for another week, “I will be taking a hard look.” Well the U.S. cannabis sector did turn

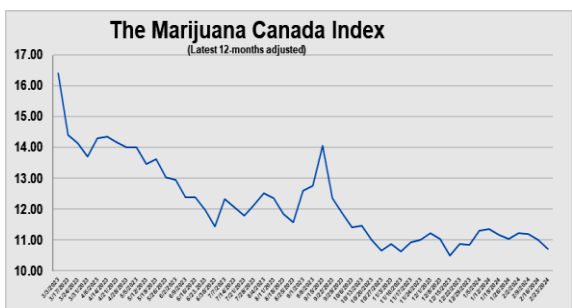


around last week indicating that it might maintain its uptrend. I'll be watching to see if the index can now make a higher high. In

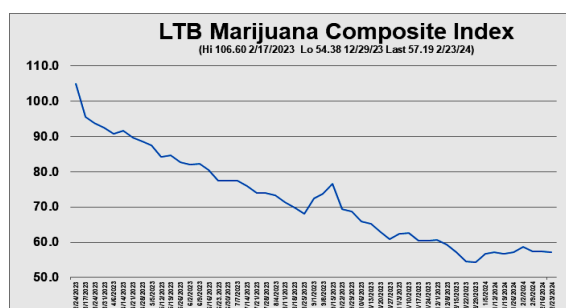


the meantime, everyone is awaiting word of a decision on rescheduling by the Drug Enforcement Administration (DEA). However, time is running out. In order to have an impact on the actual operators prior to the election, we must get word in the next few weeks and I think the market is like me. We don't trust the DEA based on its negative historical record.

**The Canadian cannabis stocks continue to struggle.** Last week the Marijuana Canada Index lost -2.5% while the Let's Toke Business Marijuana Composite Index was down -0.3%. There is a ray of



hope in Canada as the original Cannabis Act specified a review of the Act in five years and that point was reached in Oc-



tober 2023. Since that time, an Expert Panel has been formed to:

- **Assess the Cannabis legislative framework.**
- **Engage with stakeholders for input.**
- **Provide expert advice to the government on progress made toward attaining the Act's purpose.**

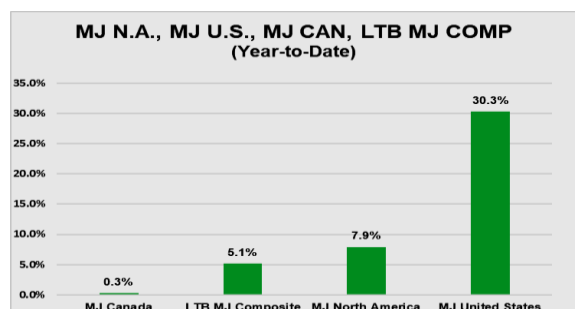
The issues that rank high on my wish list include:

- **Dealing with the underground market that still officially counts for 40% of sales and probably more.**
- **The cannabis industry is taxed by three levels of government: federal, provincial and municipal. Taxes should be reduced across the board to allow the larger licensed producers to get to a point of profitability.**

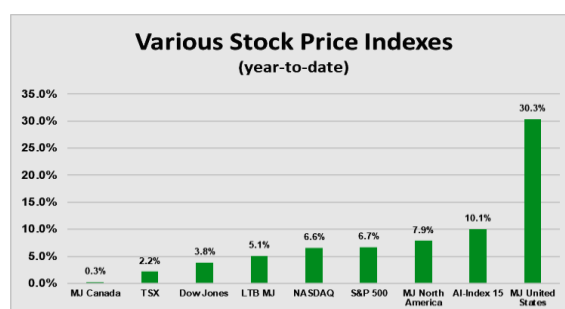
- **Relax the overall level of regulations on the industry.**

If my concern on the U.S. side of the border is an unfriendly Drug Enforcement Administration, in Canada it is a general lack of any sense of urgency to make improvements in the regulatory environment in which cannabis operators must function.

The charts below show that a healthier tone applies to equities in general including the cannabis sectors. This is much different in most of the previous five or six years that have seen the cannabis



sector mired deeply in the red. So far in 2024, the cannabis group is in the positive and the Marijuana United States



Index is actually leading the way. If the DEA should provide us a positive surprise in the next three or four weeks, we might find that cannabis is the place to be.

## Question of the Week

Thank you for sending in your questions and I hope you will keep them coming. It's your questions that keep this feature interesting and useful. Send your questions to: [ltbletter@gmail.com](mailto:ltbletter@gmail.com) Include your initials or a pen name we can use along with your city and country of residence. Questions might be edited for clarity and brevity.

The objective of the 'Question of the Week' feature is to allow readers to ask questions about investing about investing that is on their minds rather than have me guess what you are wondering about.

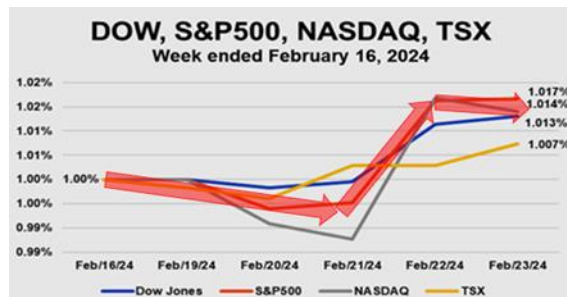
## The Cannabis Report Model Portfolio

Another positive week for the model portfolio which advanced 10% or more for the second week in succession. The two largest holdings are **Lexaria Bioscience (NASDAQ: LEXX)** and **1933 Industries (CSX: TGIF)(USOTCQB: TGIFF)** while **Predictmedix AI (CSX: PMED)(USOTC: PMEDF)(FRA: 3QP)** and **Khiron Life Sciences (TSXV: KHRN) (USOTCQX KHRNF) (Frankfurt: A2JMZC)** remain prominent holdings. The two representative positions are **Organigram Holdings (NASDAQ: OGI) (TSX: OGI)** and **Jushi Holdings Inc. (CSX: JUSH) (USOTCQX: JUSHF)**. Cash is around 17%.

## Special Report

### An Artificial Intelligence Week in the Market

**Nvidia (NASDAQ: NVDA) is the leader by a wide margin in the manufacture and sale of computer chips used in generative Artificial Intelligence.** In fact, there are fewer than a dozen countries, that is **COUNTRIES**, that have a Gross Domestic Product that exceeds NVDA's market capitalization. Last week, I alerted you to the fact that NVDA would be reporting earnings and that this report would be an important event. What a report it was and what a response the markets provided. The chart to the right shows what happened. For starters, the markets were closed on Monday for the President's Day holiday. Trading on Tuesday and Wednesday were flat to lower but the entire conversation centered on NVDA's fourth quarter report due after the Wednesday close. NVDA attracted so much attention that the release of the Federal Open Market Committee (FOMC) minutes for the meetings held on January 30<sup>th</sup> and 31<sup>st</sup> were virtually ignored. The markets appeared ready for a correction following a strong rally in the new year but the NVDA driven rally reversed that trend on Thursday and held those gains through Friday. Not only was the positive impact felt in the U.S., analysts observed that stock prices were given a lift around the world. The only other time that one stock had such an impact, in my recollection, was in 2017 when Constellation Brands made its initial investment in Canopy Growth and it was only the cannabis stocks that were affected.



As I have been reporting to you, the Artificial Intelligence (AI) market is likely to dominate the world for at least the next ten years. A PricewaterhouseCoopers's study forecasts that AI could add \$15.7 trillion to the global economy by 2030. That's just 6 years from now and the economic impact is forecast to be more than the total output of the economies of China and India.

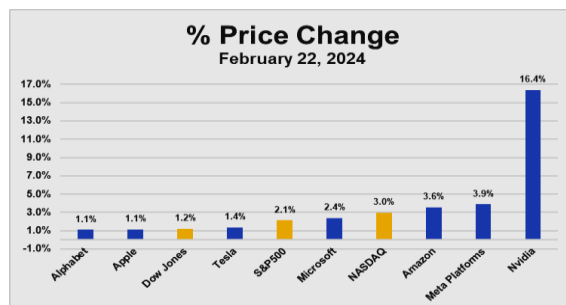
NVDA's Q4 results, that were already looking optimistic, beat expectations by a healthy margin. Q4 revenue of \$22.1 billion exceeded consensus estimates of \$20.4 billion while actual earnings per share of \$5.16 exceeded consensus estimates of \$4.60 per share. Revenue was up 262% year-over-year while earnings rose 486% over the same quarter a year ago.

These revenues and earnings were critical because:

- (1) NVDA is the bellwether for the AI industry. These results support the almost unbelievable forecasts such as the PricewaterhouseCoopers's report mentioned above. It also tends to confirm that the AI stocks are not at a bubble point. It provides credibility to the idea that AI has a long way to go. Management guidance for Q1 also exceeded expectations.
- (2) Of course, there is no shortage of optimism for the AI stocks. NVDA is now the fourth company to attain a \$2 trillion market capitalization joining Microsoft, Apple and Saudi Aramco to boast such a lofty valuation. I have frequently warned that too much optimism in the financial markets can be a warning that things are about to turn pessimistic. Prior to NVDA's report, of the 96 analysts covering the company, 92 had buy recommendations, 4 recommended hold and

no one was advising the sale of the stock. After the Q4 report, almost all analysts raised their price targets for NVDA as the company added almost \$130 billion to their market cap while all AI computing stocks added an estimated \$160 billion to their combined market cap, but there was some offsetting pessimism. For example, according to a report from S3 Partners, short sellers lost nearly \$3 billion on Thursday. NVDA's short interest of \$18.3 billion ranked third highest behind leader Microsoft with a short interest of \$20.2 billion and Apple at \$18.7 billion. NVDA trades an average of \$30 billion a day. Since NVDA trades an average of \$30 billion a day, these short positions are not particularly high as they can be covered by less than one day's average trading.

(3) This chart shows the performance of the Magnificent 7 Artificial Intelligence stocks and the three major indexes we follow. It also shows that all the stocks and all the indexes traded higher on Thursday but Nvidia was clearly the market favourite posting a gain of +16.4%. In terms of the indexes, the AI/tech heavier NASDAQ was up the most followed by the S&P 500 followed by the Dow Jones Industrials. The Standard & Poor's and Dow Jones Indexes are making record highs while the NASDAQ is now within a fraction of all-time highs.



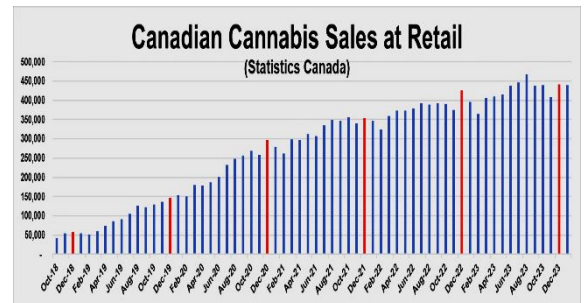
(4) This chart shows what an outstanding twelve months it has been for NVDA investors as the stock advanced 3.4X. Truly a remarkable performance for a company that would end up with a \$2 trillion plus market capitalization. I expect 2024 to be another positive year for NVDA and the other AI stocks although the overall returns will likely be much lower and the volatility will likely be higher.



Within all this excitement, **Predictmedix AI (CSX: PMED) (USOTC: PMEDF) (FRA: 3QP)**, has been a disappointment on the market. Over the same one-year period, PMED lost -60% in value. I believe if management had been able to deliver on a fraction of their promises for sales in India and Indonesia, PMED would have participated to some degree in the AI rally. I recently cut back the position in The Cannabis Report model portfolio at \$0.07 per share and the stock is down over 20% since. I still think there is still potential in PMED, particularly in India but it will require management to deliver on its promises. As I explained to The Cannabis Report subscribers, with respect to PMED, I will likely sit on my hands unless until there is some indication management can deliver on its promises. In the meantime, I reduced it to a 10% position in the portfolio. The price level at which I would be willing to consider buying back under existing circumstances is in the \$0.03 to \$0.04 per share price range.

## Marijuana Matters

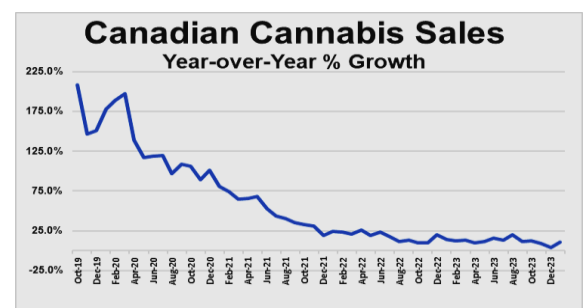
With the retail cannabis sales figures for December released recently, this may be an appropriate time to review what is happening in the Canadian cannabis industry. The result is better than expected. This chart plots monthly cannabis sales data monthly since legalization. I have coloured December in red as the last month of the year and, also, a seasonally strong month for sales. Sales in 2023 exceeded \$5 billion for the first time and represents an increase of 12.2% over 2022. Ontario, Canada's largest provincial market, saw month-over-month (M-o-M) sales advance by +19.3% followed by a M-o-M growth of +11.3 in Alberta, Canada's second largest market. Sales were weak in British Columbia that recorded a decline of -12.6% M-o-M and in Quebec where sales dropped -5.2% on a M-o-M basis.



Flower remained the most popular item representing 35.2% of sales but pre-rolls continue to grow and captured 31.4% of the market. Pre-rolls infused with concentrates is a high growth product segment that helped drive sales of pre-rolls. Demand for pre-rolls allowed their market price to hold up which helped overall market prices that still declined but below the double-digit rates recorded in 2022. The pattern of consolidation or closure of dispensaries continues.

The largest contributor to increased sales is consumers transitioning from the underground market that still represents 40% of total sales. For some reason, the authorities have always refused to enforce the law by closing down illegal dispensaries. In addition, at most points in time illicit dispensary operators can make so much money in such a short period of time, they simply reopen almost immediately in a new location.

This chart shows the Year-over-Year (Y-o-Y) growth in sales and shows an expected pattern. When sales are just starting the Y-o-Y growth is high because growth is building off a relatively low base. But as time goes on, sales growth gradually declines to a sustainable level which is where we are today. Besides the problem in Canada has not been a shortage of demand; it has been an excess of supply. The large number of closures of large grow facilities appears to be having an effect on the supply/demand equilibrium.



**Conclusion:** the five year review of the cannabis industry that was part of the original Cannabis Act is underway and the report is expected in the next couple of months. In doing their assessment, the industry I described above is what the committee will be looking at: (1) Illegal sales are still 40% of

the market (2) The industry that is over-taxed, and, (3) over-regulated in my opinion. Should the committee address these issues, there may be hope for the Canadian operators.

## Cannabis Recommendations

**Lexaria Bioscience (NASDAQ: LEXX):** With their financing behind them, I think it is clear sailing for LEXX ahead. There are always risks. Things can always go wrong. But LEXX could now be within 10 days of getting a response to their Investigational New Drug application. Again, there is always the possibility that the FDA will require additional work to be done but I don't think so. I believe this week will be the last opportunity to buy LEXX at these levels.

**1933 Industries (CSX: TGIF) (USOTC: TGIFF):** is a Nevada-based cannabis company focussed on the cultivation and manufacturing of a large portfolio of cannabis consumer-packaged goods in a variety of formats for both the wholesale and retail markets. Having followed TGIF through an emergency rescue program starting in 2020, it is gratifying to see the company very close to a self-sustaining point. Again, if cannabis is rescheduled in the United States, a company like TGIF will suddenly become a more attractive asset to industry buyers as well as stock market investors. On the market, there has been a battle between buyers and sellers in the \$0.01 to \$0.02 per share. Lately, however, my reading is the buyers are getting the upper hand. As a result, I can see the potential for a breakout to the upside sooner rather than later.

**Predictmedix AI (CSX: PMED)(USOTC: PMEDF)(FRA: 3QP)** has moved lower recently. I still await news from the major Indian and Indonesian market sectors where PMED has invested considerable time and money and substantial revenue and cashflow has been indicated. In The Cannabis Report portfolio where rebalancing resulted in selling stock at \$0.07 per share, the question becomes what is the point at which I would rebalance the holding back up to 10%? Short of news of a meaningful sale of units into India/Indonesia, I think \$0.03 to \$0.04 per share is the price at which I would be tempted.

**Jushi Holdings (CSX: JUSH)(OTCQX: JUSHF):** is a vertically integrated cannabis company, a multistate operator (MSO) with a strong management team schooled in Investment Banking. As a result, JUSH's growth strategy includes "...opportunistic acquisitions, distressed workouts, and competitive applications." I am concerned that the U.S. operators are overly optimistic about rescheduling of marijuana and there may be some disappointment ahead. But I am more than comfortable having a representative U.S. operator in my portfolio and JUSH is my choice. JUSH has outperformed as the U.S. sector has again shown strength on the expectation of rescheduling of marijuana. But based on my outlook for rescheduling as explained above, I am keeping an extra close eye on the stock.

**Organigram Holdings (NASDAQ: OGI) (TSX: OGI):** is a Canadian Licensed Producer of cannabis for medical and recreational consumers with an excellent portfolio of adult use products. OGI has a partnership with British American Tobacco (BAT) that is currently in the process of increasing its ownership through a \$124.6 million equity investment. A substantial share of this cash will be used to

expand OGI's international footprint. The Canadian cannabis market is coming into supply/demand balance and with BAT's support, OGI will be adding to its international presence. As a result, I expect to see OGI provide superior performance in 2024 which has already been the case.

**Khiron Life Sciences (TSXV: KHRN) (OTCQX: KHRNF) (Frankfurt: A2JMZC):** has been halted since May 8, 2023. I have been in touch with CEO Alvaro Torres regularly, most recently in February 2024 and I reported KHRN remains in survival mode. The government in Colombia is attempting to nationalize the health insurance business and in this attempt, companies like KHRN are becoming collateral damage. Companies like KHRN are in an ever tightening spot and all that they can do is try to hang on until the government is finished. Torres is professionally and personally committed to keep KHRN going as long as it can.

### Applications Watch

Health Canada issued one new license last week bringing the adjusted total number of licenses to 977. Last week, a new license was issued to 10106842 Manitoba Inc. of Manitoba for micro-cultivation and micro-processing. Over 40 public companies are LPs or own an interest in one or more LPs. For a complete list of LPs and related information, Ctrl-Click (here)

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