



Let's Toke Business



February 16, 2024

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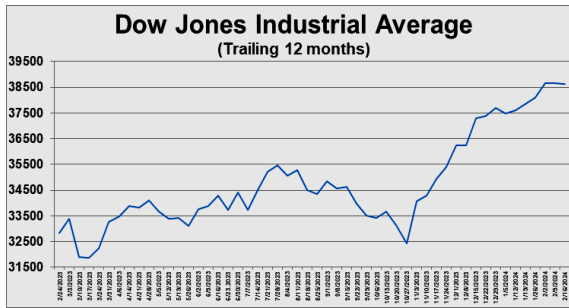
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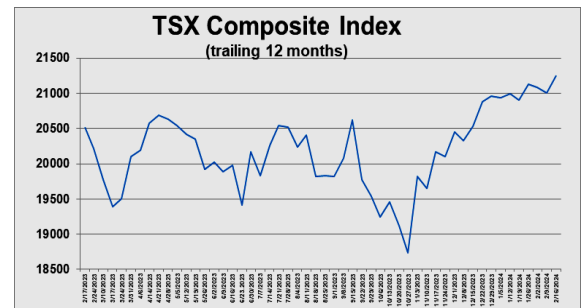
Stock Market Review & Outlook

LTB MARIJUANA INDEX: 1wk -0.0% 1 mo +1.2% 3 mo -5.9% 6 mo -19.6% 1 yr -46.1%

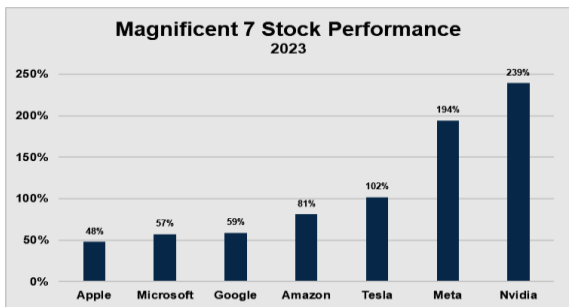
The stock markets remained in a corrective mode last week as the three major U.S. market were lower. The tech heavy NASDAQ and S&P500 led the way lower followed by the Dow while the



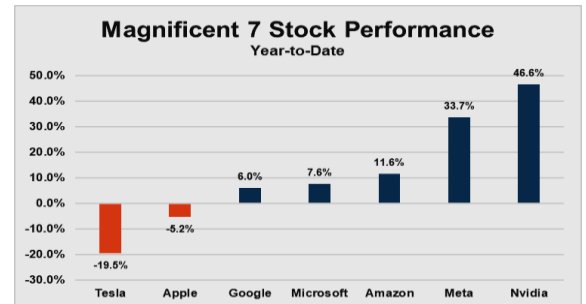
Toronto Stock Exchange Index managed a small gain. This correction starts at time when the tech stocks edged past one-third of the



value of the total value of the U.S. equity markets exceeding the peak hit in July 17, 2000 at the peak of the "Tech Bubble." In fact some pundits are already referring to the current cycle as "Tech Bubble 2.0. To provide some perspective, the Magnificent 7 is trading at almost 50 times trailing price to



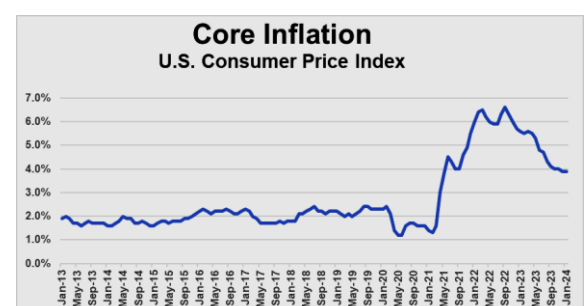
earnings ratio (P/E ratio) as the NASDAQ 100 Index sported an average P/E of over 200 at the Tech Bubble peak. The chart above



left shows the performance of the Magnificent 7 stocks in 2023 and although it shows a ladder of returns from lower to higher, the "worst" performers were Apple, Microsoft and Google that were up +48% to +59%. The chart to the upper right is an update of a chart I showed a few weeks ago that plots the year-to-date performance of the Magnificent 7 stocks that shows a wider divergence with Tesla down -20% and Apple down another -5%. In fact, on the street some traders are now calling them the "Fab Five" excluding Tesla and Apple. Watch for Nvidia that reports on Wednesday February 21st. The street is banking on a tripling of revenue which is a pretty heady expectation.



The trigger for the correction last week was the Consumer Price Index (CPI) followed by the Producer-Price Index (PPI) report. From my point of



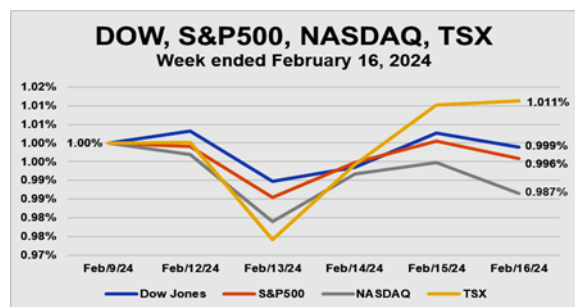
view, the CPI report wasn't negative as much as it missed expectations. The consensus forecast for Headline Inflation was 2.9% for January with the actual coming at a disappointing 3.1%. Core inflation did not fare as well remaining at 3.9%, unchanged from December and higher than the general expectation of 3.7%. This was the largest monthly gain in Core Inflation since May 2023 and up from December 2023.

The next chart shows Headline and Core Inflation plotted together to provide an easier way to make a comparison. As the markets were reassessing their initial negative interpretation of the CPI along came the Producer Price Index that is really more a measure of wholesale prices. Again the results missed expectations recording a higher than expected rate of inflation at the wholesale level. The miss was even greater in the PPI than the CPI. The CPI and PPI point toward a disappointment to come in the Federal Reserve's favourite Personal Consumption Expenditures Price Index that is scheduled to be reported on February 29, 2024.

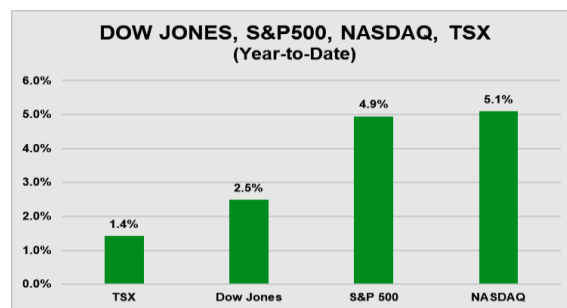


The lessons from last week are, first, correcting inflation is going to a bumpy process and, second, the markets are still very sensitive to inflation and interest rate news.

The chart below left shows the performance of the markets last week. It shows clearly the negative response to the Consumer Price Index numbers on Tuesday, a recovery as investors decided the

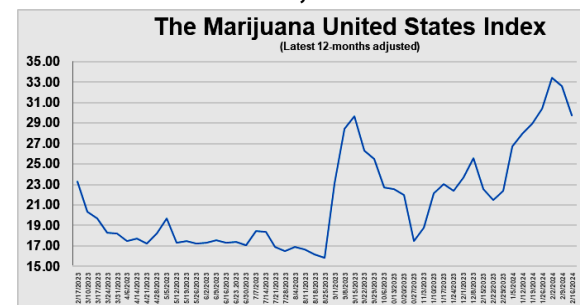


results weren't as bad as originally thought and finally a selloff as a result of the disappointing Producer Price Index data on Friday. As a result,

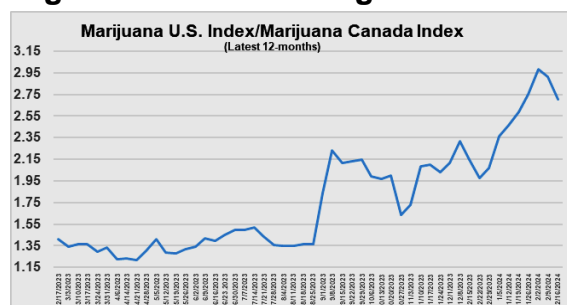


there may be some negative momentum going into next week while at the same time, the Toronto Stock Exchange will be closed Monday for a Federal holiday.

These charts show, the U.S. cannabis sector has been strong with the U.S. stronger than even

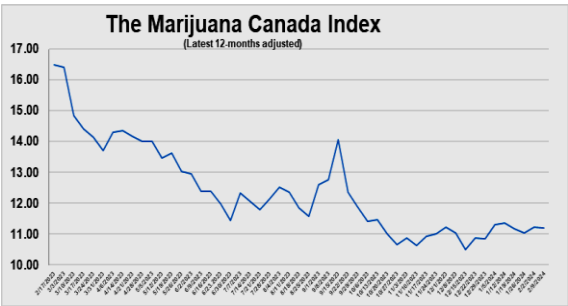


the large cap indexes. For the past couple of weeks, however, the American sector has been cor-

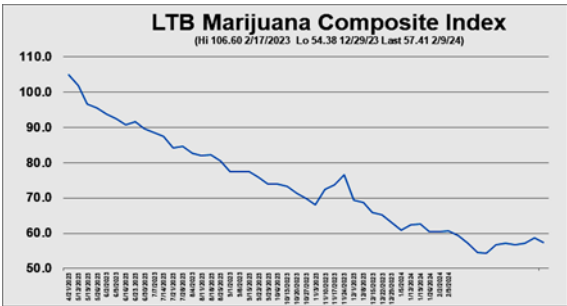


recting. If the consolidation lasts longer than another week, I will be taking a hard look. The key to the performance of the U.S. cannabis stocks is the Democrats being able to complete cannabis rescheduling along the lines outlined in the recommendation from the U.S. Department of Health and Human Services (HHS) to the Drug Enforcement Administration (DEA). I mean the rescheduling of marijuana from Schedule I to Schedule II before the November 2024 election. That is the expectation that is baked into U.S. cannabis stocks and without it, the sector will sag back awaiting the outcome of the election and if the vote goes right instead of left, Republican instead of Democrat, we may well find ourselves back in the downturn that was running over six years.

The timing of the DEA response will also have a major impact on the Canadian based operators. For the last six months or so, the Canadian cannabis stocks have been making a modest

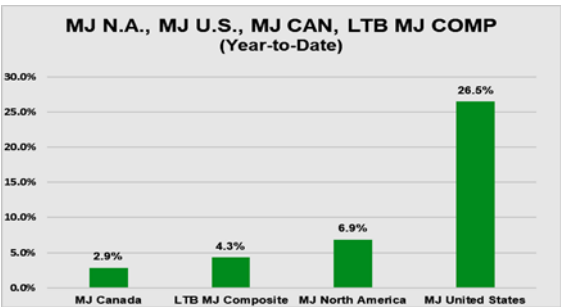


comeback but it has come by riding the coattails of the U.S. sector. This means if the DEA does not re-schedule marijuana on time, the

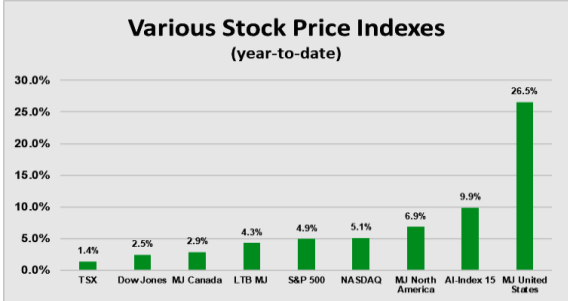


U.S. cannabis stocks will fall back and bring the Canadian stocks down with them. The Canadian cannabis stocks probably have less downside in those circumstances because they have not risen as much as their U.S. counterparts.

The chart below left shows that despite the corrections over the past two weeks, the cannabis stocks in 2024 remain in positive territory based on rescheduling expectations. In addition, the Marijuana



United States Index remains the leading index of the ones we look at every week. Also, the AI-15 has moved up into second place after



lagging immediately in the new year. Nvidia, the only one of the Magnificent 7 that hasn't reported in this earnings cycle, is scheduled to release its results on Wednesday, February 21st. Market expectations are high. For example, revenues are expected to triple. If Nvidia is able to produce positive results, I expect stocks to head higher; perhaps much higher.

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 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

Lexaria announces closing of an equity/warrants financing raising \$3.6 million

We have known for months that a financing would be necessary because management alerted us it would be required. In brief, the terms of the offering announced are:

- 1.56 million shares at US \$2.31 per share for gross proceeds of approximately US \$3.6 million.
- In a concurrent private placement, LEXX issued five year warrants exercisable at \$2.185 per share to purchase an equal number of shares.
- The offering was announced on February 15, 2024 and reported closed the next day.

Clearly stock market conditions have changed over the past year. First, and most important, LEXX has convinced a growing number of smaller institutional investors that it has a business plan of merit. The data backs this up. Overall market conditions have improved as well as the tech stocks led the way higher for almost all of 2023. LEXX is and always has been a technology company and new institutional investors that now own over 10% of LEXX understand the difference. Third, I don't know if investors appreciate this but this funding was announced and closed in less than two days. This is like night and day compared with the spring of 2023.

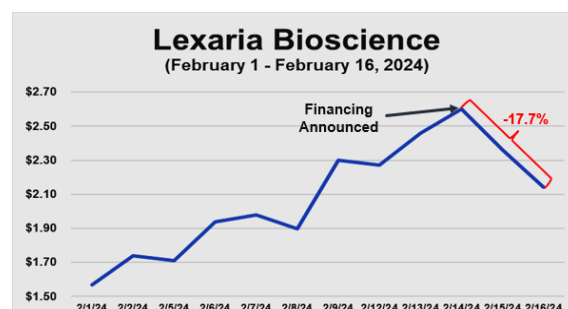
Here are some other ways this offering distinguished itself:

- (1) This is not a "keep the lights on and telephones working" funding. We know most of the money will go to R&D for the work on hypertension, GLP-1 and others.

(2) The timing of a financing is driven by more than just stock market conditions. Management has to consider when their major projects need to be funded. LEXX has always been careful to ensure they have funding for projects they commit to. Some of LEXX's R&D projects require four to eight months to complete and CEO Chris Bunk feels it would be unethical at a minimum to enter into such commitments without having funding in place. These are important details that we can't see from the outside looking in.

(3) This financing comes as LEXX's share price has been rising strongly. Compared to a year ago, the stock is up more than double which means dilution has been reduced by half. Is it perfect? No. The stock price is still lower than it was at the time of the previous equity financing. But it demonstrates a high level of determination and resiliency on the part of management.

(4) From an investment perspective, I still anticipate a positive response from the U.S. Food and Drug Administration (FDA) to LEXX's Investigational New Drug (IND) application and I expect it to come in the next two or three weeks. As a result, I conclude this announcement is not going to change LEXX's price trend from up to down. In fact, I expect LEXX to head higher on or before the news from the FDA. The stock is down -17.7% from its pre-financing announcement now trading at a price that I look upon as a wonderful buying opportunity for a rebound I expect will happen in two or three weeks.

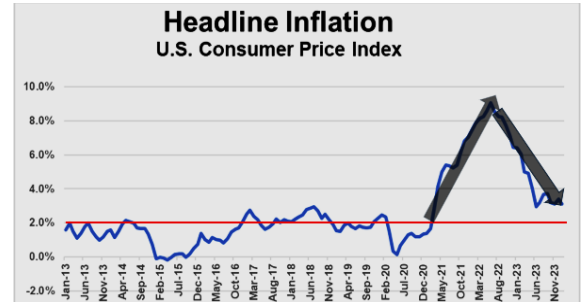


Conclusion: I know how frustrating it is to have a stock on the road to recovery only to have a financing disrupt the trend. However, for the reasons listed above, this financing is special and I think the positives far outweigh the negatives. The main issue, in my opinion, is the Food & Drug Administration's response to LEXX's Investigational New Drug application. I expect a response within two or three weeks and I also expect the answer to be positive. If the shares are still down, I expect a positive response will provoke an explosive market reaction. In addition, the way the offering was done, I doubt any "average" investors had a chance to participate at the US \$2.31 offering price. But the shares closed on Friday at US \$2.14 per share. Depending on how you value the warrant, buying at this level is approximately the equivalent of participating in the offering. I think we'll look back from early March and see this was a significant buying opportunity.

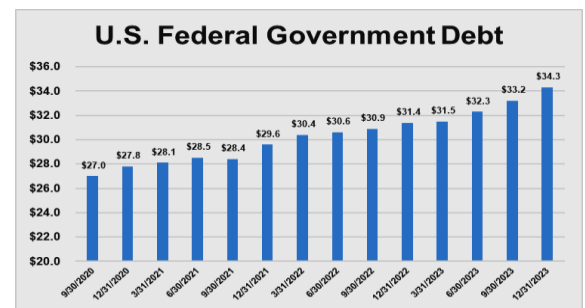


Marijuana Matters

I think it is prudent to consider the market reaction to slightly negative inflation reports last week. I've said it before but the solution to the inflation "problem" as it is popularly accepted today seems way too simple. In my many decades of working in and around economics, nothing is as easy as shown in this chart. After many years of consistent budget deficits, the world is struck by the COVID pandemic and countries around the world start up the printing presses and relax other aspects of monetary and fiscal policy. In the United States, this results in inflation and interest rates rising for around eighteen months with inflation rising from below the Federal Reserve target of 2% to a peak of 9.1% in June 2022. Then in the following eighteen months, inflation falls back to 3% and is forecast to fall very quickly to the 2% target level at which point the Federal Reserve will be able to start reducing interest rates.



That's too easy based on my experience. For example, sticking with the U.S. economy, when COVID ended, the government spending didn't. The next chart shows that despite the politicized arguments clouding the issue whether the government is spending more or less, the one thing you can't argue about is the level of debt. If the government is spending more than it is taking in, it must borrow the funds. This chart shows the debt has been increasing consistently since COVID and much longer going back in history. Overspending is a bipartisan issue. At the present time, the U.S. is adding around \$835 million in debt every hour. On its debt, the U.S. currently pays \$2 billion per day.



At the current time, the U.S. debt is equal to 125% of Gross Domestic Product. There is an economic theorem that says when the level of debt reaches two times the Gross Domestic Product, there is no hope the National Debt can ever be paid off. At the current rate, the U.S. will hit 200% in less than 20 years so time is running out.

What does it mean when federal debt is rising as quickly as it has been? There are many ways to describe it but "living beyond our means" is accurate. We also used to call it "leaving our debts for our grandchildren to pay." Well the statistics suggest it is our children that may have to face the problems we are leaving behind.

But I digress. With the rate of overspending that has been taking place, it doesn't make sense the inflation problem is almost over. We may have seen the peak but there is likely to be a few more mini-peaks and mini-valleys ahead.

The other thing we learned last week is investors are still very sensitive to changes in the inflation rate. After the Consumer Price Index results were announced and assessed to be negative, the Dow (1.4%), the Standard & Poor's 500 (-1.4%) and the NASDAQ Composite (-1.8%) all closed lower. I think we will see more of this over the rest of year and with the November election looming, any actions the Fed wants to take could prove very controversial.

Cannabis Recommendations

Lexaria Bioscience (NASDAQ: LEXX) as explained in more detail above, I believe the correction following the announcement of an equity financing last week created an excellent buying opportunity. Because of circumstances beyond our control, very few retail investors probably had a chance to participate in the issue. But because of the market's reaction to the news, buying in the market today is roughly equivalent of buying the issue.

The typical issues that would cause such an announcement to create a change in trend for LEXX's stock price do not apply. As a result, I do not consider this a time to say bye-bye. I think it is a time to think buy-buy and that is my recommendation.

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. TGIF has lagged the rebound to date. There appears to be considerable selling in the \$.01 to \$.02 per share range but the buyers have prevailed. This will dry up eventually and there is some evidence that was happening last week. I think buyers at current prices will be rewarded with a substantial return. I would be a buyer while stock is available.

Predictmedix AI (CSX: PMED)(USOTC: PMEDF)(FRA: 3QP) is a rarity in the markets we have seen over the previous several years. It is a stock that has outperformed its accomplishments. The potential for success is still there over the long term and the challenge will be for PMED to live up to its promise. The recent announcement of a sale to a hospital in northeastern India seems like more of an outlier than part of the well designed and organized approach to conquering the massive Indian and Indonesian markets. 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 meantime, PMED is participating in the market rally so I would hold on until we get more news about their primary markets. Having said that, for the model portfolio, I trimmed some stock to bring its position back to 10% of the portfolio.

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 they can do is survive until the government is finished is try to survive. 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 973. Last week, a new license was issued to LANGLEY BC CANNABIS of British Columbia for 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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