Let’s Toke Business

The Commerce of Cannabis **www.letstoke.biz** **Ted Ohashi MBA, CFA**

Week Ended November 17, 2023

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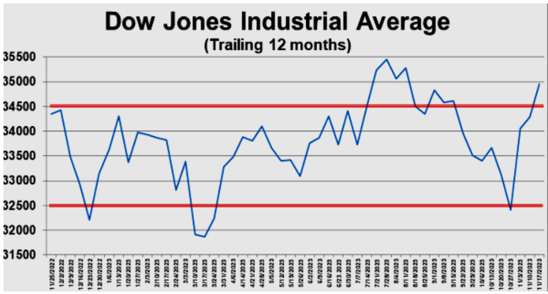
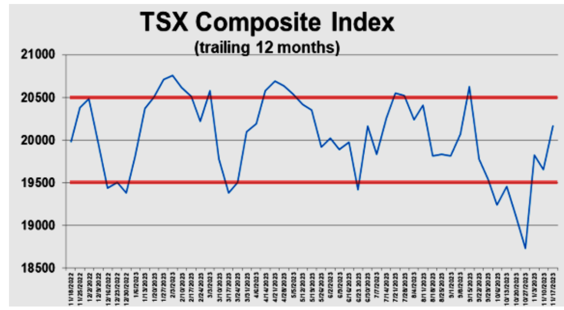
Stock Market Review & Outlook

LTB MARIJUANA INDEX: 1wk -3.7% 1 mo -4.3% 3 mo -15.4% 6 mo -28.8% 1 yr -49.4%

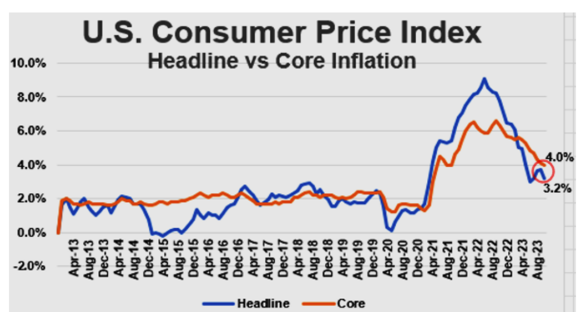
The large cap stocks were generally higher on the week as the Dow Jones Industrial Average rallied above its one year trend line and the Toronto Stock Exchange Composite closed in the middle of its trading range. As you wil see below, most of the gains were realized on Tuesday as the markets benefitted from a double dose of positive news:





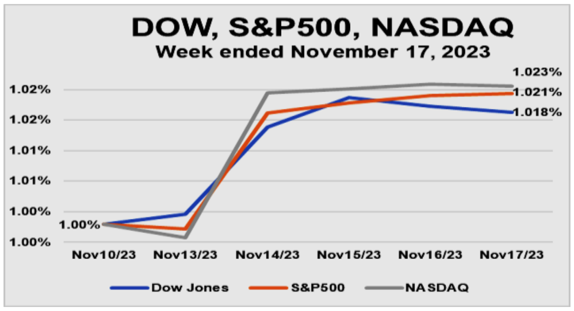
1. As I explain in more detail below, the Consumer Price Index numbers came in a little better than expected leaving investors with the sense that we will see no additional interest rate hikes from the Fed in 2023. The final Federal Open Market Committee (FOMC) meetings are schedule for December 12th and 13th and the CPI numbers relieve some pressure from the Fed that had been talking tought on further rate hikes.
2. The House under new leader Republican Mike Johnson managed to pass a bill that would avert the usual drama of funding the U.S. federal government in the final days of 2023. This was supported by the Senate later in the week. Of course, the bill doesn't atually resolve anything. It simply kicks the can down the road into January and February. But it came as a relief to lawmakers and investors in any case.

The U.S. Consumer Price Index (CPI) eased back in October to 3.2% year-over-year Headline Inflation, an improvement from the 3.7% reported for September. The cost of living was led by a 5% drop in gas prices and a 2.5% decline in energy inflation. Core Inflation, Headline Inflation exlcuding food and engery prices improved moderately falling from 4.1% in September to 4.0% in October.

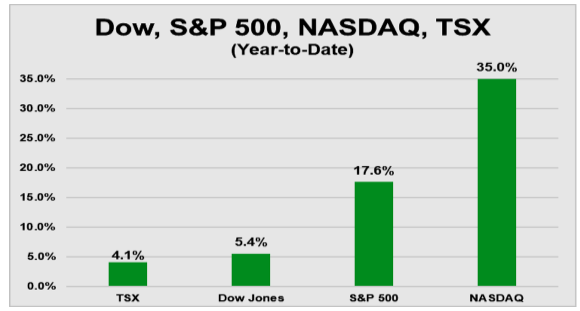


This was heartneing news for the markets. Although inflation continues to run much higher than the Federal Reserve target of 2%, this was a move in the right direction. Mark December 13th on your calendars as a potential day of interest in the markets as that is the date of the final CPI report of the year and it coincides with the start of the final FOMC meeting of 2023.

As I said last week, the markets were going to be driven by the need for legislation to fund the government and that is what happened with a little help from the consumer inflation numbers.

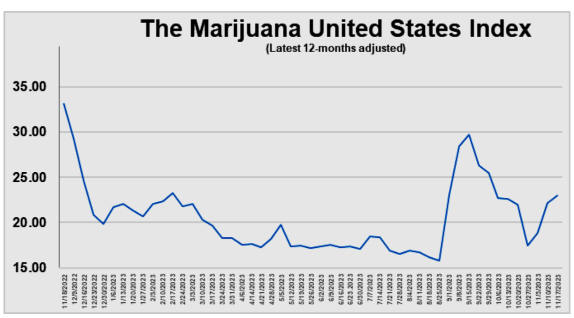


As the chart to the left shows, the blue chips were up last week but all of the gains came on Tuesday on the back of the passage of a government funding compromise bill and a positive CPI report. The year-to-date figures show the NASDAQ Composite in a strong position to cap off an outstanding 2023 followed by the Standard & Poor's in a very good position.

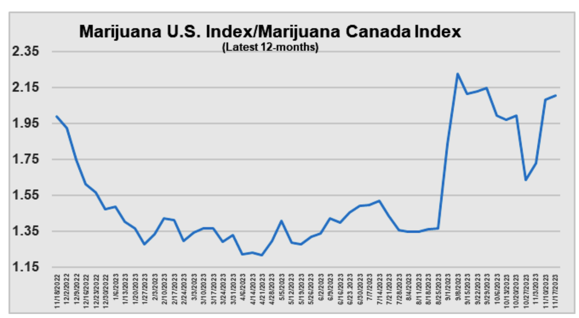


As we are well into the final two months of the year with pressure off the Fed to raise rates further and the government funding issue pushed ahead into 2024, we should have fairly clear sailing to finish off the year. We may see a little tax loss selling in December but it shouldn't be too serious. I think we can comfortably stay invested in equities into early 2024 and we may see bonds flatten out as yields peak and drift slightly lower.

The U.S. marijuana sector had another strong week with the Marijuana United States Index adding another +4.0% onto the +17.6% gain posted last week. There is a moderate level of optimism



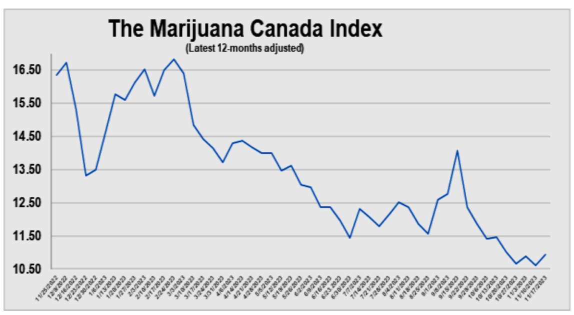
that the Drug Enforcement Administration (DEA) will heed the advice of the Department of Health and Human Resources to move marijuana from Schedule I to Schedule III that would resolve a number of issues. It would confirm that marijuana does have health benefits. It would remove the threat on federally chartered banks that deal with state legal cannabis companies. Finally, it would remove the terribly unfair aspects of 280E on the federal taxation of state legal marijuana companies.

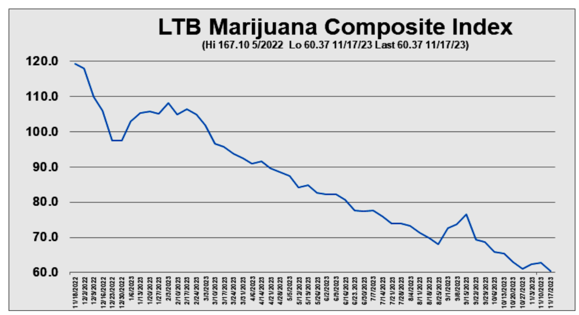


This is fine for the time being. But I think a response, even a pro-cannabis response, will take longer to come from the DEA. In fact, the worst-case scenario is that nothing happens prior to the November 2024 election. Second, I continue to note that we have not heard a peep from Charles Schumer (D-

NY), Cory Booker (D-NJ) and Ron Wyden (D-OR) about bringing forward SAFER Banking for a vote on the floor of the senate. These are the three gentlemen, Democrats all, that have kept pro-cannabis legislation from passing the senate so far in Biden's administration. That could change in a heartbeat but if you went by their record over the past three years, you might conclude that their blockade will continue. I hope not, but it's possible. Finally, as I've been warning since it became evident that these Democrats were blocking SAFE Banking while the Democrats controlled the White House, the House and the Senate, there could have been a problem in the 2022 midterm elections. The Democrats did better than I expected and held the Senate but lost the House and that is now a potential threat. A very pro-cannabis House is now under the control of Republicans and especially Speaker Mike Johnson. Even if the senate passes SAFER Banking, it might get held up in the House. As I look ahead to the 2024 elections, I think there is a greater chance of a major shift in power than I was thinking looking ahead to the 2022 midterms. That could be a potential disaster for the cannabis movement. I mean the President's approval rating is a potentially unelectable 39.0% while the Vice President's approval is even worse at 35.9%. Both of these are from FiveThirtyEight Interactives. Looked at through the eyes of a single-issue cannabis voter, these figures are frightening.

The Canadian cannabis stocks had a mixed week as the Marijuana Canada Index rose +3.0% while the Let's Toke Business Marijuana Composite declined -3.7%. The main reason for such a wide discrepancy in the results is the LTB Index has a much heavier weighting toward the small and microcap cannabis operators.

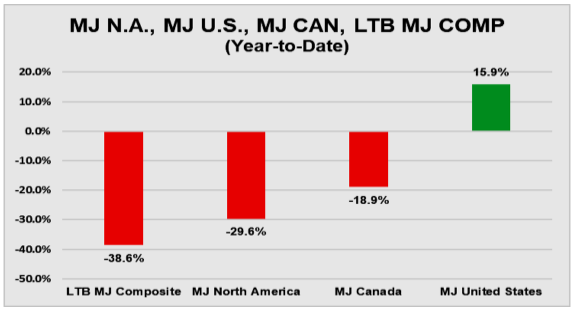


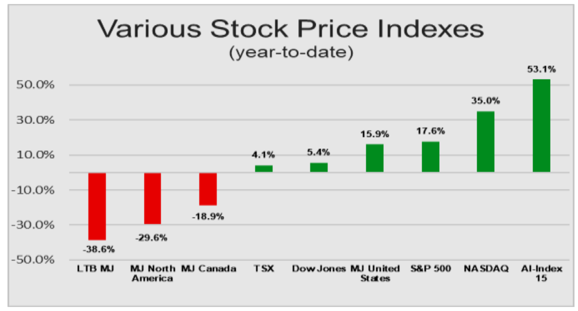


This sector clearly underperformed last week. Speaking of tax loss selling, 2023 could be a perfect tax loss storm for the cannabis sector. As can be seen in the chart below, the blue chips have generally enjoyed a profitable year with plenty of opportunities to realize gains. Meanwhile the cannabis stocks are sitting there like sitting ducks with built in potential tax losses. This could result in far more selling pressure on the cannabis sector in the balance of the year.

From an investor's point of view, I would caution selling of the American cannabis operators. The announcement of a vote on SAFER Banking in the senate is likely to produce a major bounce in the sector. This might provide the opportunity to sell this sector even if tax loss selling is not an issue.

The chart below left shows the year-to-date (y-t-d) returns for the cannabis indexes. After two strong weeks, the U.S. marijuana operators have bounced back into a strong, positive position on a year-to-date basis. Meanwhile the other cannabis sectors remain mired in negative territory. The chart to the right shows the cannabis stocks continue to lag except for the U.S. sector. The Artificial Intelligence Index has a large lead over the rest. The tech heavy NASDAQ and the tech heavier Standard & Poor's 500 are being pulled higher by their AI content.





Conclusion: Predictmedix AI (CSE: PMED) (USOTC: PMEDF) (FRA: 3QP) remains in the $0.045 to $0.05 per share trading range. Given this week's news regarding the clinical study on Fit for Duty Stations in Indonesia, PMED has taken a big step toward revenue generation. **Lexaria Bioscience (NASDAQ: LEXX)** took a small step backwards on the markets last week after having the led the way higher for the previous few weeks. The market continues to await news on the Investigational New Drug application. **1933 Industries (CSX: TGIF) (USOTC: TGIFF)** is due to report on November 28th and I expect some moderately positive results. Based on the market's response, **Jushi Holdings (CSX: JUSH)(OTCQX: JUSHF)** recent earnings were reasonably well received. I continue to like JUSH as our pick among the U.S. multistate operators. **Organigram Holdings (NASDAQ: OGI) (TSX: OGI)** report that British American Tobacco (BAT) upped its holding in OGI by $124.6 million has been well received by the markets. I suspect OGI will resume its role as one of the leaders in the Canadian industry even as it uses most of the BAT investment to expand internationally. **Khiron Life Sciences (TSXV: KHRN) (OTCQX: KHRNF) (Frankfurt: A2JMZC)** that is in a difficult spot with CEO Alvaro Torres doing everything in his power to help KHRN survive the situation.

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: 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 smallest positions are

Organigram Holdings (NASDAQ: OGI) (TSX: OGI) and **Jushi Holdings Inc. (CSX: JUSH) (USOTCQX: JUSHF).** Cash is around 17%.

Special Report

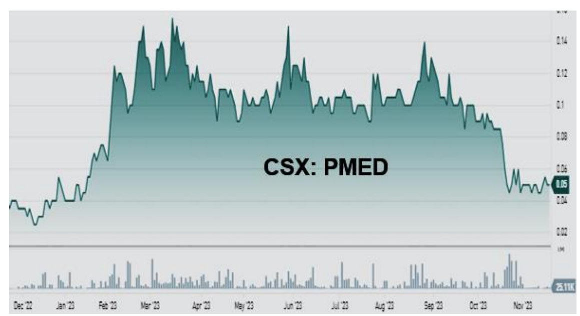
Predictmedix announces clinical validation conducted at University of Raharja in Indonesia

Predictmedix AI Inc. (CSE:PMED)(OTCQB:PMEDF)(FRA:3QP) reports the testing phase involved approximately 6,000 subjects emphasizing a non-invasive approach to capture vital signs such as heart rate, respiration rate, height, body temperature and blood pressure. The result was ***a remarkable 95% accuracy*** across critical parameters. The key objectives of the clinical study included:

- Fostering a culture of “Fit for Duty” prioritizing the mental and physical well-being of students. Raharja University also endorses PMED's Safe Entry Station (SES) solution, noting its effectiveness in non-invasive patient screening for various conditions.
- Facilitating joint research and development efforts between PMED and Raharja University leading to joint authorship of research papers.
- Aggregate vital datasets to continually train and refine AI models for predictive patterns and insights.

PMED AI is a leading provider of rapid health screening solutions powered by proprietary artificial intelligence (AI). Clinical validation represents a major stride in advancing AI technology's role in enhancing safety culture and prioritizing the well-being of individuals. The validation process includes iterative refinements, ensuring the AI accuracy gap is less than 4%, and achieving an accuracy range between 90% and 99% for all vital signs.

Dr. Rahul Kushwah, Chief Operating Officer of PMED AI said, "The clinical validation with Raharja University is a pivotal milestone in fostering a 'Fit for Duty' culture. We envision safer and more efficient workplaces globally. The accuracy and maturity of our AI solution, especially in vital sign screening, are truly rewarding. We eagerly anticipate exploring broader applications to benefit society."



Conclusion: I believe this is very important news for shareholders of **Predictmedix AI (CSX: PMED)(USOTC: PMEDF)(FRA: 3QP)** that has been working closely with Raharja University in Indonesia to have its products approved as medical devices. As the clinical validation was done by a domestic, accredited university, this will go a long way in expediting the approvals needed. PMED is incorporating a local Indonesian company that is required to conduct business in the region. It is also a further validation of PMED’s technology as Raharja University also endorses the Safe Entry Stations and is playing an active role in seeking the required regulatory approvals of products and ultimately the placement of systems within Indonesia. As this report represents a major step forward in PMED’s drive to generate revenue, I continue to believe the shares are a bargain at $0.05 per share.

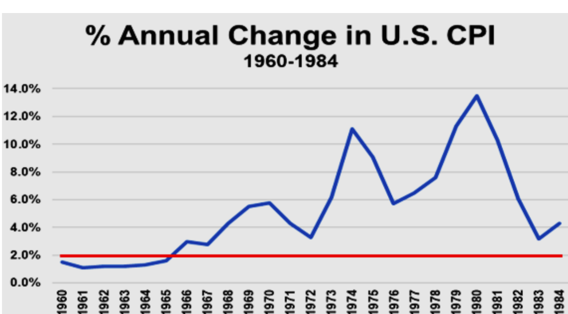
Marijuana Matters

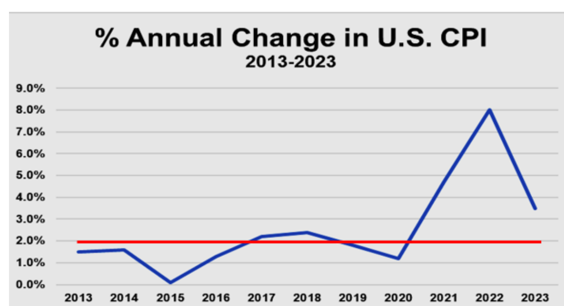
I was thinking about stock performance during periods of higher inflation. The last time we had a bout of inflation in North America was in the 1960s into the early 1980s. I was there for at least the latter part of the cycle. As I reflected back to those days, I was struck by some of the parallels to the present.

There were fundamental economic forces underlying both inflationary cycles. In the earlier case, it was the U.S. dollar being separated from gold by President Nixon in 1973. Up until then, theoretically if you had a $1 bill, you could go to the bank and convert it into physical gold. In those days, the price of gold was fixed for long periods of time. Since 1792, the price of gold changed only four times, the latter two being to $38 an ounce in 1972 and $42.22 per ounce in 1973. This link to gold prevented governments from creating paper currency at will. Supposedly, the government had to have sufficient gold in Fort Knox to redeem all their paper money if so required. Removing this discipline allowed governments to create money freely and they did so leading eventually to the problem in the current cycle. The other factor in October 1973 was the Arab oil embargo. This was triggered by King Faisal of Saudi Arabia who stopped all shipments of crude oil to the United States and was quickly joined by most of the other Arab oil-rich countries. From just prior to the embargo until January 1974, the price of oil rose from $2.90 per barrel to $11.65 per barrel, a quadruple in four months.

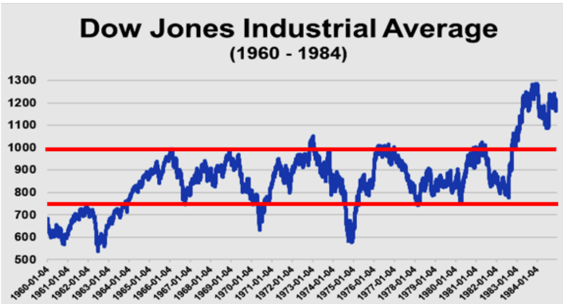
The fundamental economic force underlying inflation at this time is directly related to the U.S. government's willingness to print money. This is not a characteristic that marks Democrats or Republicans. Both parties do it but with the spending to provide economic support from the effects of COVID and the Biden administration's "tax and spend" philosophy, deficits have recently gone through the roof. In the first three years of the current government, the cumulative budget deficits have totalled $5.9 trillion.

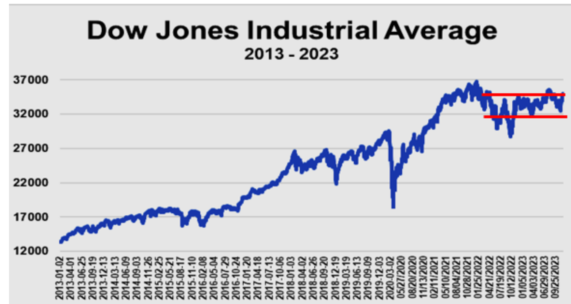
The chart below left shows U.S. inflation in the earlier cycle while the chart below right shows inflation in the previous ten years from 2013 to 2023. I have marked the Federal Reserve's target inflation rate of 2% on both charts as a point of reference. What should be clear is that in the previous cycle, inflation ran much higher for much longer than it has this time. Of course, the current cycle may not be over. The previous cycle was mostly "cost push" inflation whereas the current cycle is "demand pull" driven. With all the recent deficit spending, it doesn't make sense that "demand pull" on prices is over.





The next charts show stock market performance then and now. The chart below left shows that in the previous inflation cycle, stock prices went up and down but did not advance for nearly twenty years. The chart to the right indicates a similar trend could be starting now. Back then, we figured out that some companies could report improved earnings in inflationary times. Companies that reported improved profit margins were those able to raise the selling price of their products faster than their costs were rising. These tended to be large, well branded, household name operators such as Coca Cola, General Electric and IBM and were referred to as the "Nifty Fifty." Through the late 1960s and the first half of the 1970s, these stocks led markets higher and became richly valued compared to other stocks. Then starting with the bear market of 1974, these stocks began to lose their shine and by the early 1980s, were back to average or below average valuations.





This time, we have the Magnificent Seven, the leading Artificial Intelligence (AI) stocks. However, I think there is a major difference between the two. The Nifty Fifty in the previous cycle were a product of high inflation. Today's Magnificent Seven or the AI stocks in general are in a world of their own. If anything, the introduction of AI applications in various parts of the economy will be anti-inflationary.

Conclusion: in looking back at the previous inflationary/economic cycle, here are some thoughts:

(a) Keep some powder dry. Inflation might not be over. It is too simplistic to believe that $6 trillion in deficit financing produced one year of inflation followed by less than one year of disinflation.

(b) Hard or real assets, that is, tangible assets, can be expected to outperform during inflationary periods. Hard assets include commodities such as gold or silver and real estate, for example.

(c) Soft assets suffer the most under inflation. Soft assets include bonds and stocks. Bonds lose in many ways including high taxation on interest payments and loss of purchasing power between initial investment and maturity. These effects can be offset by Treasury Inflation-protected Securities (TIPS). With common stocks, you can invest in companies that deal in hard assets such as mining companies or real estate operators.

(d) As a rule, value stocks outperformed growth stocks during the earlier inflation cycle. I think that might relate to the fact that growth companies are driven by earnings growth while value stocks are often based on the value or real assets. In the 1970s, growth stocks generated an average gain of +4.1% per annum while value stocks advanced an average of 12.0% per annum.

(e) Finally, small cap value stocks outperformed during the high inflation 1970's. In fact, whenever inflation was over 3%, small cap value outperformed large and small growth stocks by over 7% per annum.

If higher inflation persists, these are some investment areas to consider.

Applications Watch

Health Canada issued two new licenses last week for an adjusted total number of licenses of 985. Last week, new licenses were issued to Ryan Albertin of British Columbia for micro-cultivation and Triton Cannabis Group of Ontario for micro-cultivation. 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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