



# Let's Toke Business



January 5, 2024

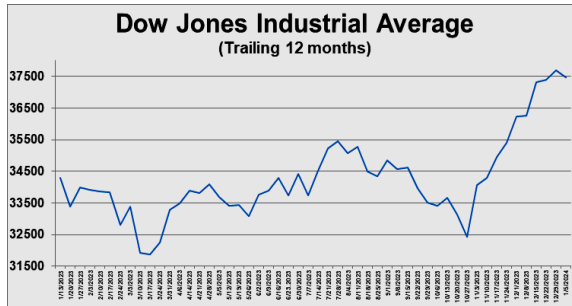
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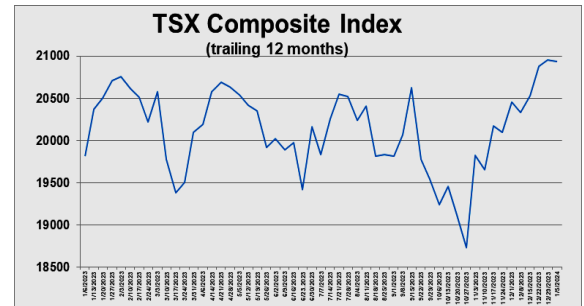
## Stock Market Review & Outlook

**LTB MARIJUANA INDEX: 1wk +4.3% 1 mo -4.4% 3 mo -17.6% 6 mo -26.9% 1 yr -44.9%**

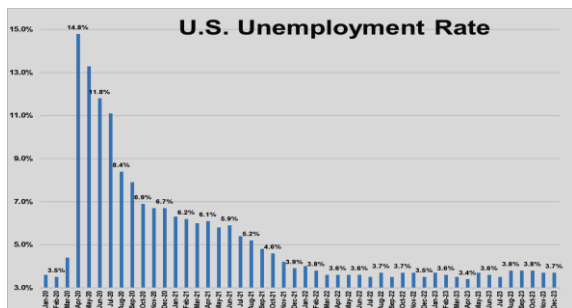
**2024 started the year in correction mode with the Dow, Standard & Poor's and NASDAQ Composite recording the first weekly loss in 10 weeks.** A correction comes as no surprise following



a strong finish to the year in November and December 2023. There was a mixed medu of economic results last week but the



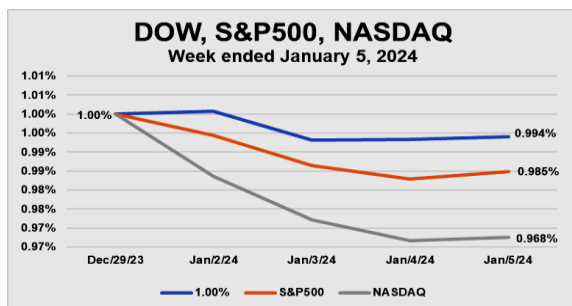
number that the Federal Reserve has been focussed on for many months is the unemployment rate. The jobs report certainly indicated an economy that remains stronger than generally expected. The



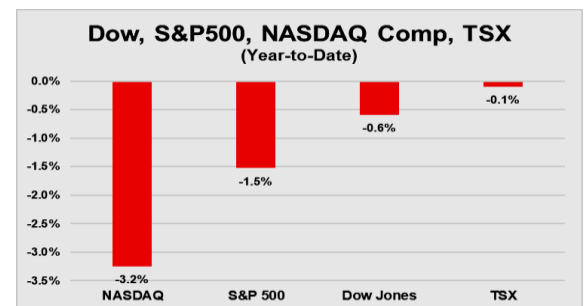
data shows the economy added 216,000 jobs in December 2023, an increase of nearly 25% over November and 27% higher than the consensus estimate of 170,000. As the chart to the left shows, the unemployment rate held steady at 3.7%. The unemployment rate bears watching because if the unemployment rate at the time of the Presidential election is higher than it was at the time of the previous midterms, the incumbent President loses. This has been true for as long as

U.S. unemployment data was been recorded and reported. Going backwards, this unemployment/election indicator has been true for Presidents Trump, G.H.W. Bush, Carter, Ford and Hoover. The unemployment rate at the 2022 midterms was 3.6% so President Biden will be hoping the economy remains strong through November while the Republicans will be looking for economic weakenss and an unemployment rate above 3.6%.

**As the chart below left shows, the first week of 2024 was generally lower with the sectors that were stronger last year being weaker this year.** The chart below right shows this even more clearly.



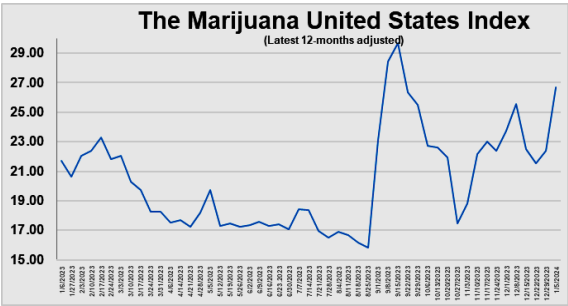
None of this should come as a surprise. It is often the case that that the strongest sector on the way up is the weakest sector on the way



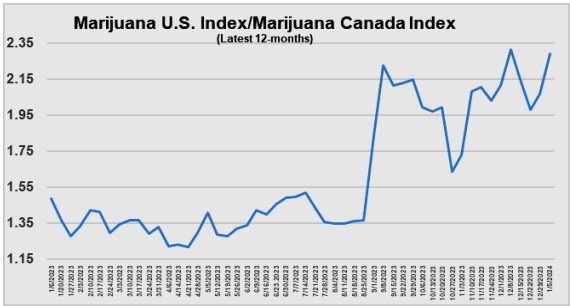
down. This also fits with the pattern of monthly stock market performance. November and December

are two of the stronger stock market months on the calendar with January a correction period. Of course, I believe this will be a relatively brief correction and if the market does turn back higher, the natural pattern is for the stronger sectors to resume leading the way higher.

**Speaking of opposite market action, the cannabis stocks got off to a very strong start in 2024.** The Marijuana Canada Index gained +4.4%, the Marijuana North America Index rose +7.5% and the

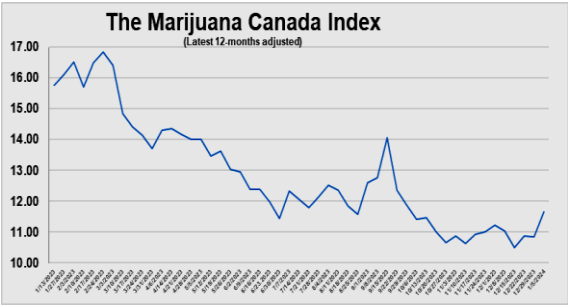


Marijuana United States Index added a remarkable +19.2%. From my perspective, it appears investors are overly optimistic about the

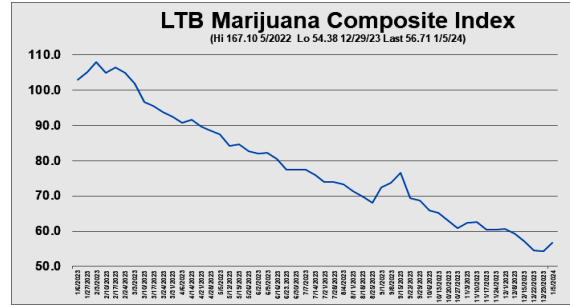


timing of rescheduling marijuana from Schedule I to Schedule III. The consensus seems to be that the rescheduling will happen by the end of the first quarter and it must happen by the start of the second quarter to get it done before the November election. If you review my comment on the Drug Enforcement Administration (DEA) you will see why I think the timeline is optimistic. It doesn't mean we should abandon the American operators. But if the rally in the U.S. operators continues, at some point you should lighten U.S. operators in portfolios. I will cross that bridge with you when we come to it.

**The Canadian cannabis stocks rode the coattails of the U.S. sector posting smaller gains.** The Marijuana Canada Index started the new year off with a gain of +4.4% while the Let's Toke Business

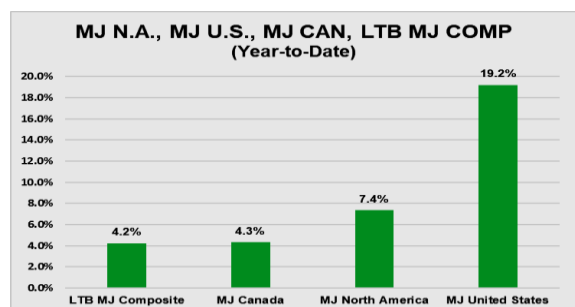


Marijuana Composite gained +4.3%. Looking ahead to 2024, I think the financial reports from the licensed producers will be very important as

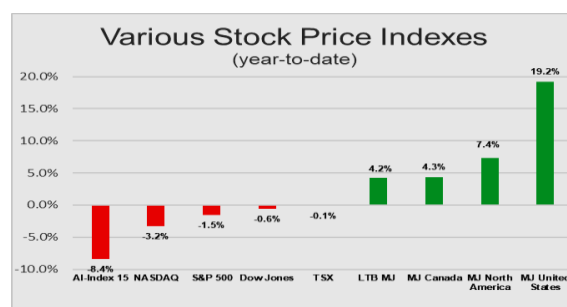


investors look for signs of supply/demand equilibrium. My expectation is that if rescheduling in the U.S. happens before the November 2024 election, the U.S. producers will lead the way higher with the Canadian producers following behind.

The chart below left shows the first week of 2024 for the cannabis sector while the chart below right shows the broader cross section of stocks I follow throughout the year. This latter chart makes the early



performance reversal clear with the cannabis stocks leading the way in positive return territory followed by the large cap stocks in neg-



ative ground. This is a complete reversal from last year's results. What I expect for 2024 is a positive but weaker performance from the blue chips and a stronger and positive return from the cannabis group. To realize a positive return from the cannabis will probably require a timely trade in the U.S. sector. I expect another positive year from the Artificial Intelligence stocks. The better performers will likely in the medium to smaller cap stocks. It should make for an active year.

## 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

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

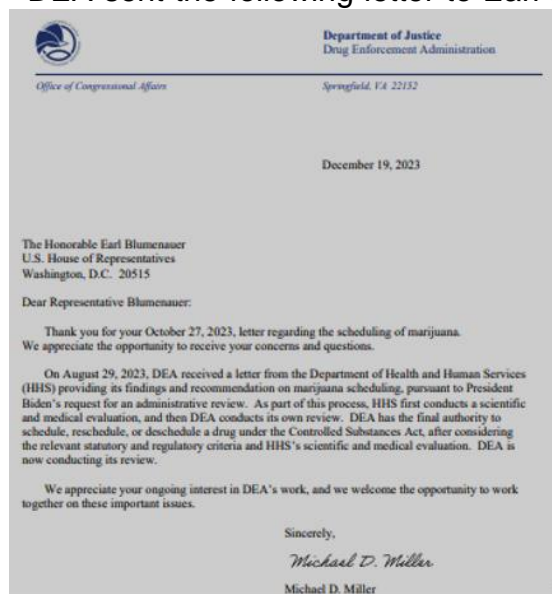
### There's a Problem Brewing with the Drug Enforcement Administration (DEA)

I have been alerting readers to the fact that the U.S. DEA is not a cannabis friendly government agency. If I'm correct, market gains like the +19.2% gain in the Marijuana United States Index are overblown. It means there will be a moment when the market realizes the expectation that marijuana will be rescheduled from I to III by March or April 2024 is far too optimistic. When that happens there is a likelihood

that the U.S. marijuana operators will decline and perhaps crash. I think it is important enough to cover in detail.

The background starts on October 6, 2022 when President Biden asked the Secretary of Health and Human Services (HHS) and the Attorney General to initiate an administrative process to review how marijuana is scheduled under federal law. On August 29, 2023, HHS Secretary Xavier Becerra recommended the DEA reschedule marijuana from Schedule I to Schedule III. This triggered a rally in the marijuana stocks in general that rose over 10% in two weeks and a spectacular near 90% rise in the U.S. cannabis sector in the same time frame. Here is a summary of the backstory.

- It was initially miscommunicated in being told President Biden had sent a letter to Secretary Becerra. The only direction was given verbally in the speech.
- In the speech, Biden asks HHS to review how marijuana is scheduled under federal law. It is not clear that Biden asked for a scheduling recommendation.
- Since late August, there has been speculation with respect to the DEA's position: was the DEA required to take the HHS recommendation; it was noted the DEA had always accepted such direction, how soon would the DEA act; and so on.
- On December 19, 2023, Michael Miller, Acting Chief, Office of Congressional Affairs for the DEA sent the following letter to Earl Blumenauer (D-OR), a longtime supporter of marijuana,



ana, in reply to a letter from 31 bipartisan lawmakers, led by Blumenauer that asked the DEA to consider the “merits” of legalization and also to think about fully removing marijuana from the Controlled Substances Act (CSA).

- Blumenauer. Here are the highlights:
  1. The DEA received a letter from HHS providing HHS's “recommendations on marijuana scheduling, pursuant to I
  2. The process is HHS “first conducts a scientific and medical evaluation, and then DEA conducts its own review.”
  3. “DEA has the final authority to schedule, reschedule or deschedule a drug under the Controlled Substances Act, after considering the relevant statutory and regulatory criteria and HHS's scientific and medical evaluation.”
  4. “DEA is now conducting its review.”

**Summary:** It seems clear to me, this letter is the DEA flexing its bureaucratic muscle. They point out the next step is to conduct their own review and they provide no detail. They also point out in what happens to marijuana scheduling, the DEA has “final authority.” This does not sound like a process that will be resolved in the next four months.

- Not everyone is pro-cannabis.
  1. Six former DEA heads and five former White House drug influencers formally asked the Attorney General and the current DEA administrator to oppose the recommendation from HHS.
  2. A letter from 29 former U.S. attorneys asked congress to leave marijuana as a Schedule 1 drug.
  3. A group of 14 Republican elected representatives asked the DEA to “reject” HHS's recommendation to reschedule marijuana and leave it in Schedule I.

**Conclusion:** For the reasons given above, I do not expect the DEA to reschedule marijuana by March or April 2024. On the other hand, the U.S. cannabis operator stocks are certainly acting as if this is going to happen. For the time being, I think the cannabis stocks, especially the U.S. operator stocks, can continue to perform well. After all, this is a sector that has been declining for six years and has reached the point where it wants to recover. If the sector remains strong during the first quarter and there is no move to reschedule on the part of the DEA, then the presidential election creates the risk that nothing will happen for a year or more. This means we will have to pick a spot in the spring to reduce exposure to the U.S. cannabis sector.

## Cannabis Recommendations & Other News

**Lexaria Bioscience (NASDAQ: LEXX):** If I look at the flow of information that lies ahead in the first quarter of 2024, I believe LEXX will be higher in price and perhaps much higher. Here is the schedule as I see it:

- (1) **January 2024:** this news was not on my original list but LEXX announced on January 4, 2024, that DehydraTECH™-powered semaglutide outperformed Rybelsus, an orally delivered drug for the treatment of Type 2 diabetes in sustaining higher levels of semaglutide in blood, improved blood glucose control, faster achievement of peak drug delivery and reduced side effects. This is a potentially positive precursor to (3) below.
- (2) **January/February 2024:** LEXX receives the remaining data needed to submit the Investigational New Drug (IND) application on hypertension to the Food and Drug Administration (FDA).
- (3) **January 2024:** LEXX will likely announce details on a new follow up study to the GLP-1 study relating to weight loss and diabetes. This will be the largest study LEXX has undertaken.
- (4) **February 2024:** LEXX reports submission of the IND application for hypertension to the FDA.
- (5) **March/April 2024:** receive a response from the FDA on the IND application for hypertension submitted in February and I anticipate a positive response.
- (6) **March/April 2024:** start receiving initial data from the new GLP-1 study started in January. Confirmation of initial results would be positive. An improvement is potentially spectacular.

**Conclusion:** The expected news flow outlined above could result in explosive market action in the next quarter or more. I noted back in June 2023 that LEXX showed signs of being under accumulation. That pattern continues today. I believe we will see a major breakout in the stock during the next four months. Make sure you have it in your portfolio.



**Predictmedix AI (CSX: PMED)(USOTC: PMEDF)(FRA: 3QP)** provides rapid health screening solutions and remote patient care solutions powered by proprietary artificial intelligence (AI). The PMED system is totally non-invasive meaning the individual does not have to provide bodily fluids or blow to the results to be generated. I think PMED is great opportunity because:

1. The most advanced product to date is the Safe Entry Station that can be used to analyse and identify 19 physiological vital parameters such as heart rate or blood pressure, fatigue, various mental illnesses including depression and anxiety and impairment by drugs or alcohol.
2. PMED has targeted the healthcare industry for its initial market which many AI experts agree will be one of the early, high growth markets for AI.
3. PMED is focussing on high growth Asian markets like India and Indonesia. AI requires data to base its predictions on and data is easier to collect in these markets. PMED recently reported completing 250,000 scans. Over time, Intellectual Property (IP) has the potential to be an important asset.
4. The business model is one of relatively high gross margins that mean PMED can be cash flow positive based on the sale of a comparatively small number of units in the field.

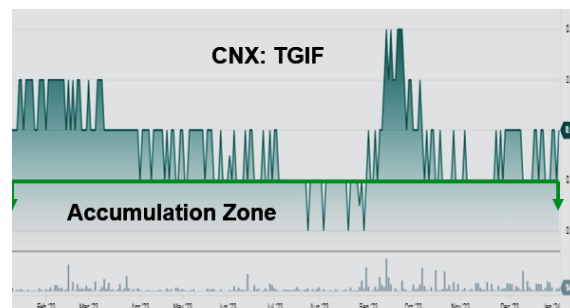
**Conclusion:** The next important step for PMED is a meaningful commercial order that I believe will be sourced from India or Indonesia and 2024 is the year I expect it to occur. In my tax loss selling report, I estimated that \$0.04 per share or lower would be an attractive buy point. During late December, PMED did not trade down that low. But last week, PMED did get down that low and I am comfortable at that price. So \$0.035 to \$0.040 is the price level I would be buying PMED. The Company will not be underappreciated and undervalued forever. So pick it up while you can.



**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. Its in-house branded products include: wholesale flower, pre-rolls, and extracted products under the AMA and Level X brands for the Nevada market; and Canna Hemp™, a national cannabidiol (CBD) brand of wellness products that includes tinctures, gummies, topicals and sports recovery products. TGIF owns 91% of Alternative Medicine Association, LC (AMA) and 100% of Infused MFG (Infused).

In June 2020, in the midst of the COVID pandemic, Paul Rosen already the largest individual shareholder of TGIF was parachuted in on a rescue mission as the interim Chief Executive. For the past three and one-half years, I have watched Rosen methodically turn the business around. During this time, he told me what he was going to do, he did it and I interviewed him regularly to go over what he had done. So I can report with confidence that if it was not for Rosen's efforts, TGIF would not have survived. In the latest financial report for the year ended July 31, 2023, TGIF reported record revenue of \$18.3 million. During the year, TGIF upgraded and retrofitted the irrigation and humidification systems. This activity had the effect of increasing production and cultivation costs, delayed harvests and lowered yields.

**Conclusion:** Upgrading the grow facility had the effect of holding back revenue and raising costs for TGIF. Having watched Rosen operate since 2020, I expect to see higher revenue and improved profit margins in the current fiscal year that ends July 31, 2024. In the recent first quarter report, TGIF reported an 11% increase in revenue and an improvement in EBITDA. This was a solid result that I see an improving top and bottom line, especially in the third and fourth quarter when upgrades hit hardest last year.



**Jushi Holdings (CSX: JUSH)(OTCQX: JUSHF):** is a vertically integrated cannabis company, a multi-state 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 speculation 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.

**Khiron Life Sciences (TSXV: KHRN) (OTCQX: KHRNF) (Frankfurt: A2JMZC):** has been halted since May 8, 2023. I have contacted CEO Alvaro Torres regularly, most recently in December 2023 when I noted a small improvement in operating conditions. KHRN is certainly not out of the woods yet but for the first time in over a year, there is some reason for hope.

## Applications Watch

Health Canada issued its first new license in 2024 to bring the adjusted total number of licenses of 1,007. Last week, a new license was issued to Up-Country Farms of British Columbia for 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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