The Big Green Cannabis Handshake

Regardless of opinion on the subject of marijuana legalization, a booming market is eventually going to have its needs met by someone. iAnthus Capital Holdings, Inc. (CSE: IAN) ("iAnthus"), led by a phenomenal team, is providing a sound option for those of us who wish to get on the cannabis curve early.

The company recently closed a C$20m bought financing deal, and soon after commenced construction on a state-of-the-art cannabis cultivation and processing center in Holliston, Massachusetts; the 36,000 square foot facility will be able to produce 8,700 pounds of cannabis annually. It may not be the gigafactory, but it's a seriously big step forward in creating sufficient supply infrastructure to support the burgeoning industry.

The ever-increasing acceptance of recreational marijuana consumption continues to motivate people to join the fray, but a problem exists for legitimate business owners in the United States since they cannot yet access state or institutional capital as a result of the federal ban. While many thought this would keep the market down, the cultural movement is powerful, in full swing, and making big money.

Although the industry is exploding, its expansion has been tentative due to banks and exchanges refusing to lend to or accept listings from cultivators as a matter of fence-sitting policy. This has fostered a great need for capital throughout the market, and Hadley Ford, ex-VP of Goldman Sachs, has enabled legal growers of medicinal marijuana in the US to access vital funds to establish much-needed supply by establishing iAnthus on the Canadian Securities Exchange.

Ford spotted that the federal attitude to the movement has kept the larger companies at bay, awarding smaller companies ample opportunity to flourish. iAnthus provides investors with a chance to catch the market growth as early as possible by offering a comprehensive finance and management solution for licensed cannabis cultivators, processors and dispensaries throughout the United States.

iAnthus sees future decriminalization as inevitable in all fifty states, and with global attitudes shifting for decades now, it's difficult to disagree with them. The North-American market for medicinal marijuana is now so well-established that even Trump is going to have a hard time rolling this one back.

Of course, Justin Trudeau's government takes a firm stance against prohibition, and is committed to the more liberal approach of legalization, regulation and harm reduction, making the Canadian Securities Exchange the perfect place to launch iAnthus and assist the dispensaries further south in meeting escalating demand.

The company's interests are exclusively fully-licensed operations delivering their products through vertically integrated systems funded by investments secured by an expert team. Once the Massachusetts production facility is complete, four separate dispensaries will open to distribute the product locally. The number of patients that have purchased medical marijuana in Massachusetts has tripled over the past twelve months, to approximately 18,000 every month. Total active patient certifications roughly doubled in 2016, and 179 physicians registered anew to certify patients.

My confidence in iAnthus stems from the capabilities of the people in charge; Ford has not only come from Goldman Sachs, but has spent a total of fourteen years on Wall Street, overseeing transactions worth billions. He is accompanied by a management team from investment banking, finance, healthcare services, real estate and construction, business operations and regulatory compliance, plus a specialist advisory board with in-depth knowledge of every aspect of the cannabis industry. These guys really have made sure that marijuana has the chance to become a credible, and therefore reliable, investment option.

The Trump Effect on Detroit

There’s a logical fallacy named “post hoc ergo propter hoc”. The name is Latin for “After that (therefore) on account of that”. The fallacy it names is false causality. Here’s an example: Ford announced that it would not build a new assembly plant in Mexico, as it had previously announced it would do, after President-elect Donald Trump said that he would penalize Ford with an import duty on every car built in any new Mexican plant for import to the USA. Therefore post hoc ergo propter hoc, Trump’s statement caused Ford’s change of plans, right?

Actually there is little evidence for that conclusion. More compelling is the fact that unsold inventories of new cars, in particular of the small cars that are built in Mexico, are climbing, so that car makers, logically, are looking for ways to reduce production and thus for ways to back out of promises to spend money to increase production. Note that Ford announced that instead of spending 2 billion dollars to build a new plant in Mexico it would instead spend 700 million dollars to beef up one of its southeastern Michigan assembly plants. Ford, thus, by the accounting logic so loved by politicians will have “saved” 1.3 billion dollars and in a last gift to Obamian economics it will have “saved” hundreds of American jobs. The notion of a Trump Effect will give Ford a gift. It will be able to say to annoyed Mexican trade negotiators not to mention tax officials that it had no choice in the matter. “Trump” caused it, they will say with mouths in which butter couldn’t melt.

As if climbing unsold inventories weren’t enough there’s also the worry in Detroit that neo-liberalist economics on steroids (The Market, blessed be its name, rules all) will now mandate the Federal Reserve to raise interest rates (to kick start investment, they say) thus making car loans more expensive to both the seller and the buyer.

So here comes Mr Marchione, the Italian-American ruler of FIAT Chrysler who says that his (Italian) company will now invest one or two billion dollars in its US operations. The Trump Effect, you say? Nope. It’s the lousy European and particularly Italian economies. The Euro, Italy’s currency at the moment, isn’t doing well at all if you consider that a 25% drop against the dollar in a couple of months isn’t a good thing that is. With interest rates going up and the dollar stronger than its been in decades where would you invest US dollars? I often wonder just exactly what the car industry means by “investment.” Factories must be constantly updated to stay competitive and is the cost of “retooling” each model year and investment?

Now looking at Asia we see that Toyota is “defying Trump,” right? Toyota says that its investment plans are set for years and it won’t change them. This is just a bit disingenuous. Actually all of the car makers are waiting for the EV, electric (battery or fuel cell) car to debut in the mass market to see if it will stick around this time out. All car makers think longer term than Wall Streeters prefer, because it takes 3-6 years to design a vehicle and bring it into mass production. Toyota is in fact the one global car maker that has had skin in the electrified vehicle market the longest – The Prius hybrid debuted in Japan in 1997! And it is still in production and has sold millions of vehicles a large proportion of which are still on the road with their original (nickel metal hydride) batteries. Please also remember that

Japan does not allow Foreign car makers to manufacture in Japan, and even importing a foreign car into Japan is made as difficult and expensive as possible. Japan's economy has been stagnating for over a decade. The Japanese car makers can survive in the US market just by selling into that market the cars they produce in North America. I suspect that they are ready to move some North American production around rather than seeming to be defiant to the new administration. But I also suspect that the Japanese and Koreans have more bargaining chips to put on the table if push comes to shove. They have already brought their domestic supply chains to North America and are even adding to the number transferred as I write this; they operate profitably in the growing number of right-to-work states, all of which voted for Trump; and they reinvest their profits in their local operations.

The Chinese by the way are following the Japanese model with respect to supply chains with one improvement. They, the Chinese are now buying American companies and replacing only the top tier managers with Chinese administrators and continuing to sell into the US markets. The new owners have more capital than the old ones and so can modernize the old factories and improve efficiency. But they are not yet making cars domestically or exporting them to the USA from China – a good reason is that Chinese owned and operated car makers do not make cars for their domestic markets that meet American safety/health standards, but even so, they are selling into the world's largest, by far, car market (China's 2016 **domestic** sales were nearly 24 million units – 50% more than the sales of domestically assembled and imported units combined in the USA in 2016, which was by far the biggest sales year in American car industry history). The Chinese are even longer term planners than the Japanese and Koreans. I don't think we'll see Chinese cars assembled in North America-**unless they are** EVs! – before the mid 2020s.

Donald Trump doesn't seem very interested in killing the fossil fuel industry – quite the reverse. Neither does he seem to believe in global warming as a reason for environmentalist panic. Notwithstanding any of that and even though internal combustion engines for transportation produce only 2% of the world's anthropogenic CO_2 the impact of that 2% is not spread evenly. It is a major cause of urban air pollution (along with diesel particulate) and this is most felt in the now immense cities of Asia. China is committed to reaching 30% EV component of its OEM automotive sales by 2030 and wants 5 million EVs on the road in China by 2020. There are 90 (!) EV makers in China as of this writing, and dozens of lithium-ion battery manufacturers. There is already a Darwinian shake out among all of these competitors in China and many of them will certainly look to foreign markets for salvation. I see technology transfers coming from China to the USA.

The fossil fuel industry of course wants consumers to continue to buy internal combustion powered vehicles, but the fossil fuel burning utility industry wants to see EVs to soak up base load-while the alternate energy industry of course wants EVs to push demand for alternate energy.

I think that we're on the cusp in the USA of a vast increase in EV production with a concomitant demand for batteries. China today is consuming the bulk of the critical raw materials for both and its natural resource miners and refiners are scouring the world for additional resources. We need both new domestic production and new refining capacity into battery useful grades of lithium, cobalt, nickel, graphite, and manganese urgently.

It's not the Trump Effect that's going to hold back or push forward the development of consumer EVs it's really the supply and distribution of critical natural resources including electric energy. In other words, it's the operation of the market driven industrial consumer product economy. Critical raw materials for these markets are and always will be good bets.