Roughly $100 billion of marijuana is sold illegally each year.

As world governments move to legalize medical and recreational weed... where will the smart money invest?
In a discussion with Real Vision in 2016, entrepreneur Alan Gertner raved about marijuana’s huge investment potential:

“We’re just at the beginning of the next great untrammeled market opportunity. This is a moment that I’ll probably never experience again in my lifetime.”

Gertner is a former Google executive. Today he runs Tokyo Smoke, an innovative recreational marijuana company in Canada.

We’ll explain the reasons behind Gertner’s enthusiasm in a moment. First let’s lay down some key facts to get an idea of how big the weed industry really is.

We’ll use tobacco as a proxy, since it has a lot in common with the marijuana business… right down to the inevitability that governments will tax the hell out of weed, just like they do tobacco.

Estimated worldwide annual sales of marijuana are $100 billion. That’s roughly quadruple the annual sales of tobacco giant Altria Group (MO), the parent company of Phillip Morris USA.

Altria’s market cap is $120 billion, on sales of approximately $25 billion. Apply that ratio to the marijuana business, and we arrive at a theoretical industry size of $480 billion.

Now factor in the marijuana industry’s blistering 40%/year growth rate, which incidentally makes it the world’s fastest growing industry.

Also consider that there’s zero institutional money in marijuana today. When hedge/pension/mutual funds get involved, valuations will have to expand to accommodate the additional investment dollars.

Given these facts, it’s possible that marijuana could grow into a half-trillion-dollar industry in the coming years. Reaching this level will require widespread legalization… but the raw potential is certainly there.

Perhaps the most important fact is this:

Currently, the total market cap of all publicly traded marijuana companies is less than $10 billion.

Which implies growth of 50X is possible.

All this at a time when good opportunities in the markets are scarce. Many are aware that thanks to unnaturally low interest rates there is just too much money chasing too few assets. Active managers find themselves fighting over the scraps of a few basis points.

So, for them, the burgeoning marijuana industry smells like steak to a hungry dog. Many experts expect it to lure in billions of dollars as legalization continues.

Of course, a large addressable market does not necessarily equal profits.

While many marijuana businesses will be fantastically profitable… others will go to zero.

To help separate winners from losers, Real Vision recently featured three expert investors who have conducted diligent research into the weed industry:

Mark Hart, the wildly-successful hedge fund manager who teamed up with Kyle Bass to make a fortune for their clients shorting U.S. real estate in 2006/7.

Todd Harrison, the manager of a cannabis-focused hedge fund (and the founder of popular investor education website Minyanville)

Alan Gertner, a former Google executive turned marijuana entrepreneur and founder of Tokyo Smoke

Interestingly, despite their diverse approaches to investing in cannabis, they all agree on one thing:

Marijuana growers and distributors will be poor investments.
It’s a problem of economics. Historically, growing and selling marijuana has been a lucrative business. But that’s solely because it was illegal. If you remove the government ban, the artificially inflated profit margins collapse. Marijuana becomes just another farming product like corn or soybeans.

Profit margins in farming are famously horrible. There’s no reason to believe marijuana, once it’s legal, will be more profitable than any other crop. Legal marijuana would be a commodity, and be priced as such. In fact, deflation in marijuana prices has already begun. In Washington State, where recreational use is legal, cannabis prices are dropping 2% per month.

At Real Vision, we place a high value on diverse viewpoints. So, on the rare occasions when all our independent contributors agree (such as in this case about the threats to marijuana growers and distributors), we see it as a powerful signal.

For biopharma investors however, the story is much brighter.

Biopharma refers to pharmaceuticals created from cannabis. Cannabis hedge fund manager Todd Harrison is extremely bullish on cannabis’ potential as an effective drug:

“We believe this is going to save and help a lot of people’s lives and struggles with unmet medical conditions.”

He continued to explain in his Real Vision interview on September 11, 2017, that cannabis drugs have shown promise in treating serious brain diseases:

“There are studies now for dementia and for Alzheimer’s. Which makes sense. Cannabis stimulates activity in the brain for these older people whose brain activity is slipping. There are about 85 FDA trials currently in place right now that’s focusing on cannabinoid based research.”

There’s still a huge hurdle to clear, though: the U.S. Drug Enforcement Agency (DEA) classifies marijuana as an extremely dangerous “Schedule 1 Substance.” This puts it in the same category as heroin, which killed approximately 13,000 people in 2015. As far as we are aware, marijuana use has never killed a person because the lethal dose is far more than a human could ever consume.

Still, the classification hinders marijuana research a great deal. It’s the main reason scientists know so little about weed. Researching marijuana has been almost completely illegal in the U.S. for the last 50 years.

The good news is that Harrison expects the DEA to soon reclassify marijuana:

“As soon as medical efficacy is demonstrated, the DEA by law has to reclassify, at which point the institutions are going to be much more aggressive entering the space...”

He expects reclassification to happen in late 2017 or early 2018.

If you’re looking for a stock pick, Harrison suggests GW Pharmaceuticals “is light years ahead of the competition.” It’s working to develop cannabis-based drugs that can treat brain tumors. It trades on the Nasdaq under GWPH, and has a market cap of $2.75 billion.”

Finally, we come to recreational marijuana.

As we know, marijuana has been illegal for 50+ years. Once legalized, it has all the investment upside of a brand new industry.

But it’s not actually a new industry; it has existed, illegally, for centuries. As a result, it has a dedicated user base already in place.

Typically when a new industry is born, companies must address certain critical questions. How do we know people will like our product? How do we create demand for our product?

There’s no need for marijuana businesses to do this. Tens of millions of people already use it worldwide. Millions more probably smoke or “vape” but don’t admit it in surveys. A huge base of loyal customers is already in place, and they’re willing to pay a high price.

For the recreational marijuana industry, Canada is the place to be. In fact, Canada is pretty much the world capital of marijuana. It’s the only country in North America to legalize medical marijuana at the national level. Recreational use will be legal there by July 2018. And Canada has the world’s largest marijuana growers.

Although selling marijuana remains illegal almost everywhere, this hasn’t stopped certain entrepreneurs from cashing in big. We’ve heard from venture capitalists earning 35% cash yields in the marijuana space.

But, unfortunately, tax rules in the U.S. make it nearly impossible to keep big profits. Since marijuana sales remain illegal in the U.S., marijuana businesses may not deduct expenses for tax purposes – even if they reside in a state where recreational weed is totally legal. So, if a U.S.-based marijuana company earns $5 million in revenue and pays $4 million in expenses, it doesn’t pay taxes on its $1 million profit. Instead, it pays taxes on its $5 million in revenue. A 20% tax rate would put it out of business.

By now, you will have gathered that there is a lot to be excited about when it comes to investing in marijuana because like any immature industry, there are big opportunities... but of course there also big risks. We’ll leave you with a quote from master investor Mark Hart, who’s optimistic on the future of legalized marijuana in the U.S.:

“I think legalized recreational weed is a virtual inevitability by the next election in the U.S. If Trump doesn’t get on board, he’s going to have a problem facing somebody like Cory Booker or Elizabeth Warren who are advocates. It’s a political winner. It’s an economic winner. It’s jobs, its votes. And institutional money is going to have to come into this stuff...”

See you next week.
Emerging Markets have been star performers in 2017 and Brazil has been one of the leaders. Brazil appears to be recovering from a serious economic slump and political crisis.

Is this Brazil's time to shine?

The signs are promising.

The Swiss National Bank is the only central bank in the world that publicly trades as a stock. Are central banks creating a massive bubble, even in central bank shares? Is the Swiss National Bank the next bitcoin?

Have they found an entirely new way to make money?

We will find out in time...

IF YOU ONLY LOOK AT ONE CHART

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Not long ago, North Korea’s primitive missile program was the laughingstock of the world. Nobody’s laughing now. North Korea has missiles that can reach California, and has demonstrated the ability to set off a powerful nuke.

Thankfully, it still lacks the technology to combine these into a nuclear missile that can reach the U.S. mainland – for now.

Kim Jong Un’s provocation of the mighty U.S. has led to the belief that he is a madman with a death wish. However, some experts argue his strategy is perfectly logical, and maybe even brilliant: escalate tension to drive a wedge between the U.S. and China, which share a common desire to disarm North Korea.

If North Korea’s plan is to pit the U.S. and China against each other, it appears to be working. While commenting on China’s cooperation with U.S. sanctions against North Korea, U.S. Treasury secretary Steve Mnuchin recently said:

“If China doesn’t follow these sanctions, we will put additional sanctions on them and prevent them from accessing the U.S. and international dollar system.”

This is an extreme threat. The majority of world trade is conducted in dollars, so cutting China off from the U.S. dollar system would devastate China’s export-driven economy and set off a trade war between the world’s two most powerful countries. This is probably why, to date, the threat has worked and China has generally cooperated with the U.S. on North Korea.
But no one likes to be strong-armed and this is not the first time the U.S. has financially bullied China. The Chinese government know that as long as the U.S. dollar maintains dominance in world trade, China will be at the mercy of U.S. economic threats. It should come as no surprise therefore that the Chinese have been working to decrease their reliance on the dollar.

China recently took a big step in that direction by signing a $10 billion deal with U.S. enemy Iran. It’s the largest deal between the two countries since the nuclear sanctions against Iran were lifted in 2016.

The deal provides a credit line to Iran to build infrastructure. China sees Iran as a key partner, and plans to run its massive “One Belt One Road” infrastructure project through the Iranian capital of Tehran.

Many other countries share China’s desire to undermine the U.S. dollar. For example, Venezuela recently made a bold statement when it began publishing oil prices in Chinese Yuan in order to free itself from the “tyranny of the dollar.”

Venezuela’s move to publish oil prices in Yuan is merely symbolic; it will continue to sell oil for U.S. dollars. But the dollar-for-oil arrangement is a major contributor to the U.S. dollar’s stranglehold on world trade. It’s something to keep an eye on should more cracks begin to form.
FOREIGNERS UNLOAD U.S. TREASURIES

More immediately, the desire of other countries to move away from the U.S. dollar is now showing up in economic data. According to the Federal Reserve, foreign holdings of U.S. Treasuries fell $110 billion Year over Year. China alone accounted for $95 billion of the decline. (Though it’s worth noting that this data is noisy, and the newest release shows Chinese holdings increasing a bit from last month.)

Either way, the U.S., as the most indebted nation on earth, counts on foreigners to fund its massive borrowing. With the recent lack of foreign demand, shorter-term interest rates have seen a major spike. This week, the 1-year yield hit an 8 year high of 1.32% - a level we haven’t seen since October 2008.

WHO WILL BUY U.S. TREASURIES?

From an American perspective, foreigners have chosen an awful time to scale back their holdings of US Treasuries. Last week, Fed Chair Janet Yellen made the big announcement we’ve all been waiting for: in October, the Fed will begin to unwind the massive balance sheet it has accumulated as a result of trying to stimulate the economy since 2008. Included on its balance sheet are $2.5 trillion of U.S. Treasuries, making the Fed the single largest holder of U.S. debt.

Any guesses as to who ranks number two? That would be China, with $1.2 trillion.

As the Fed turns from a buyer to a seller, China will have a decision to make. It could choose to step in as a buyer to help the U.S. absorb some of the excess supply of Treasuries. Or it could dump Treasuries and potentially fan the flames of financial instability in the U.S.

One thing is certain: the U.S. now has more to lose should its relationship with China continue to sour. You can be sure Kim Jong Un and his cronies are watching closely.
ARE WE NEARING THE END OF THE LONGEST BULL RUN MARKET IN HISTORY?

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THE SNIPPET

“EMERGING MARKET VOLATILITY IS UNDERNEATH US NASDAQ VOLATILITY FOR THE FIRST TIME EVER.”
- KYLE BASS
Milton,

Bitcoin trading has been essentially banned in China and the price fell dramatically before bouncing again almost immediately. Does that mean Cryptocurrencies are not a bubble?

OK...I know why you’re doing this. You want me to make enemies with the Bitcoin Brigade by calling it a bubble, don’t you? Well I may be a puppet but I ain’t no dummy.

Look, bitcoin is clearly a bubble BUT that doesn’t mean it won’t be a phenomenal investment at some point in the (not too distant) future. This is a commodity which is in extremely limited supply that is currently seeing voracious demand. That always leads to higher prices. Always.

Many of these new coins will go away (Whoppercoin? Dogecoin? The Paris Hilton ICO? Puh-leeze) and some of them should never even have been launched like the Useless Ethereum Token which the company’s own CEO begged people not to buy. They didn’t listen but when the smoke clears, blockchain technology will still be standing and may very well turn out to be the most revolutionary technology since the internet.

In the meantime, pick a side and make sure you absolutely refuse to listen to anybody making the case against you. You are 100% right whichever side you are on.

Oh, and if you want a piece of the Miltcoin ICO, just drop me a line.

Milton
The legendary Jim Rogers, whose investing track record ranks among the top-ten of all-time.

A potentially phenomenal investment opportunity in agriculture.

Russian agricultural stocks are making new all-time highs. But thanks to the awful bear market Russia has endured, they're still cheap. Rogers likes Russian fertilizer companies in particular.

American sanctions against Russia have forced the country to develop its own booming agricultural sector.