



[rhstruthers@gmail.com](mailto:rhstruthers@gmail.com)

519-374-9332

Yearly subscription US\$249

Know when to hold-em!  
Know when to fold-em!  
Know where to set stops!  
Know when to run!  
Never count your portfolio  
Until the sells are done..

GOLD uptrend still intact

A quick update on Gold because of the typical intervention seen late Sunday evening or wee hours Monday AM. The chart below shows half hour intervals and about \$2 billion was sold over a few seconds to cause the drop to \$1240.



This was an attempt to break support in the market in the \$1250 area and it failed. As I have said before, these interventions have less and less effect because the game is well known now.



On the daily chart it is hardly noticed and all it achieved was a test of the bottom rising uptrend channel. Something I highlighted in my last update as quite possible. Today we have been a bit over \$1250 and ideally would like to see a move above \$1260 to start another up move.

I think this is an ideal time in the market to buy Gold stocks like yesterday's Sanatana.

Many expect a slow summer but I would no count on it. The bottom could easily be in and we see a substantial move by August like last year.

**Sanatana TSXV:STA Entry Price \$0.05 Recent Price \$0.05**

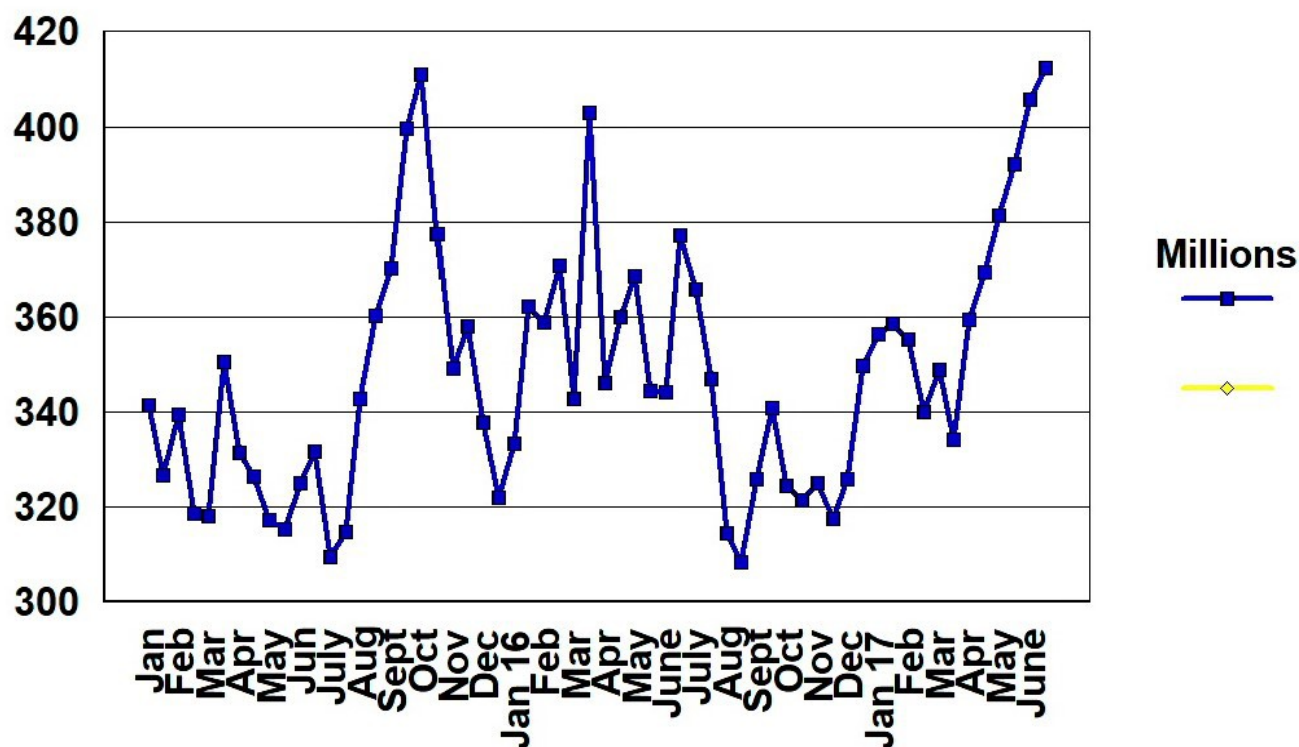
Just been one day since my report but I am setting the entry price at 5 cents, seems there is some stock there, but I would not chase beyond 6 cents for now.

Short data came out in the U.S. yesterday so I was anxious to see shorts on the Gold stocks and my Short Barometer edged higher into record territory.

This is another clear indication that Gold stocks are way over sold and an very significant rally is not very far ahead. The only other steep increase like this was just before the big rally that started in early 2016.

I am going to look at some Gold stock call options again, we made over 1,000% returns on some in 2016 and this might be a 2<sup>nd</sup> chance.

## Gold Stocks Short Barometer



I completed my Chapter 2 of Pot Eyes Wide Open.

I will paste it in here and also add in the \$\$Lounge. I will probably add a web page to the site so we can follow the sector better.

Chapter 3 will probably be on the producer market, how they get a license, requirements and growth.

Final chapter probably on all the producers or most of them. That will be a daunting task but plan on having that before September.

**My feeling is the sector has seen a good correction but might drift sideways through summer. But as you will see next pages, the big growth story is yet to come**

## Pot Eyes Wide Open – Chapter 2 – the market

In one sense marijuana is a unique market for investors as there is the legal market and Black market. I believe it fits ideally into the 'S curve' used in technology innovation.

In technology the early days are called adaption, that is where a new technology is accepted by the market and it's growth from that point is the most astonishing as it climbs the 1<sup>st</sup> part of the 'S curve'.

If a technology has a 5% market penetration and moves to 20%, that is 300% growth. This high growth rate continues many years until you get over 50%. If the market grows from 50% to 75% penetration the growth has slowed to 50%. This was one of the tools I used to predict the market top of 2000. At that time the new technologies were the computer and internet and they moved up to around 70% market penetration then - so the big growth was over.

Some where between 50% and 75% adaption you have the 1<sup>st</sup> big consolidation, as growth slows, usually over supply and price competition increases. The growth bubble deflates and many companies fail and a few pick up the pieces and become the market leaders. That 1<sup>st</sup> consolidation in the 'S' curve happened after 2000 and today after that meltdown we have the Amazons, Ebays, Googles and Facebooks emerging as the internet leaders.

The big mistake many investors are making in the Marijuana market is that they think it is too frothy and over priced. This really is because growth is strong as we are at the beginning of the 'S curve' so we are seeing that effect. However we are **a very long way** from the 50% penetration level.

**In Canada I estimate we are between the 5% to 10% market penetration** so have a long way to go with strong growth. The euphoria in the market is really based on the fact we have reached the acceptance phase. We know it is going to be adapted and grow.

With internet/PC we knew the ideal penetration is 100% of the populace but that will not happen with POT, as it will be more like the alcohol or cigarettes as only a portion of the population drinks or smokes. So we need to measure the market adaption of POT usage sector only.

Most believe that Canopy, TSX:WEED is a major leader now in Marijuana production and I would agree. Their revenue in the last reported qtr was \$C9.3 million. Philip Morris is a leader in the Tobacco market and their revenues was US16.6 billion in the last qtr.

If Canopy for POT could catch up to Philip Morris for Tobacco as a market leader in their sector, their revenue needs to increase about 2,400 times. **You see some potential here? Philip Morris is global but in time so could Canadian POT producers.**

This is what the vast majority of investors fail to grasp, is the size and scope of this market and where we are in the adaption or growth cycle.

With POT, there is no need to develop a market, it is already there but is a black market in most instances.

**The real question is what is the current market position and where are we on the 'S' curve.**

**This is the most important thing to understand in this market and I spent a lot of time trying to find the best answer.**

If you are long POT stocks you will like this answer.

Currently as a POT producer, Canada is a leader and most of us invest in the Canadian POT producers so I am going to limit my analysis to the Canadian market. In general we know the U.S. is about 20 times our size in Canada.

[Ottawa newspaper article](#)

[Canada's medical cannabis growers now supply about 170,000 patients](#), and many producers regularly sell out or run short of strains, says Aaron Salz. He was the first investment analyst on Bay Street to specialize in Canada's cannabis industry, and is now a consultant to some of the big growers.

Between four million and six million Canadians will use cannabis recreationally next year, says Health Canada, drawing on estimates from both government and private sources.

**So using the 170,000 and 5 million potential market, currently there is less than 1% market penetration.**

In about a year there will be legal recreational POT use in Canada and there will be a supply shortage. I have no doubt about that and a shortage would compromise one of the government's major goals in legalization: stamping out the black market.

Knowing this, in late May, Health Canada announced it was streamlining the process and almost doubling the number of staff assigned to review applications for growing licenses. The changes also make it easier for the 45 existing producers to expand.

It typically takes anywhere from **six months to three years** to build a growing facility and bring it up to full production, experts say. Health Canada is giving priority to 137 applications that have passed the initial screening, and some already have facilities built. But the department says it's impossible to estimate how long each application will take to process or what the production capacity will be of new growers, which is "highly variable and difficult to forecast."

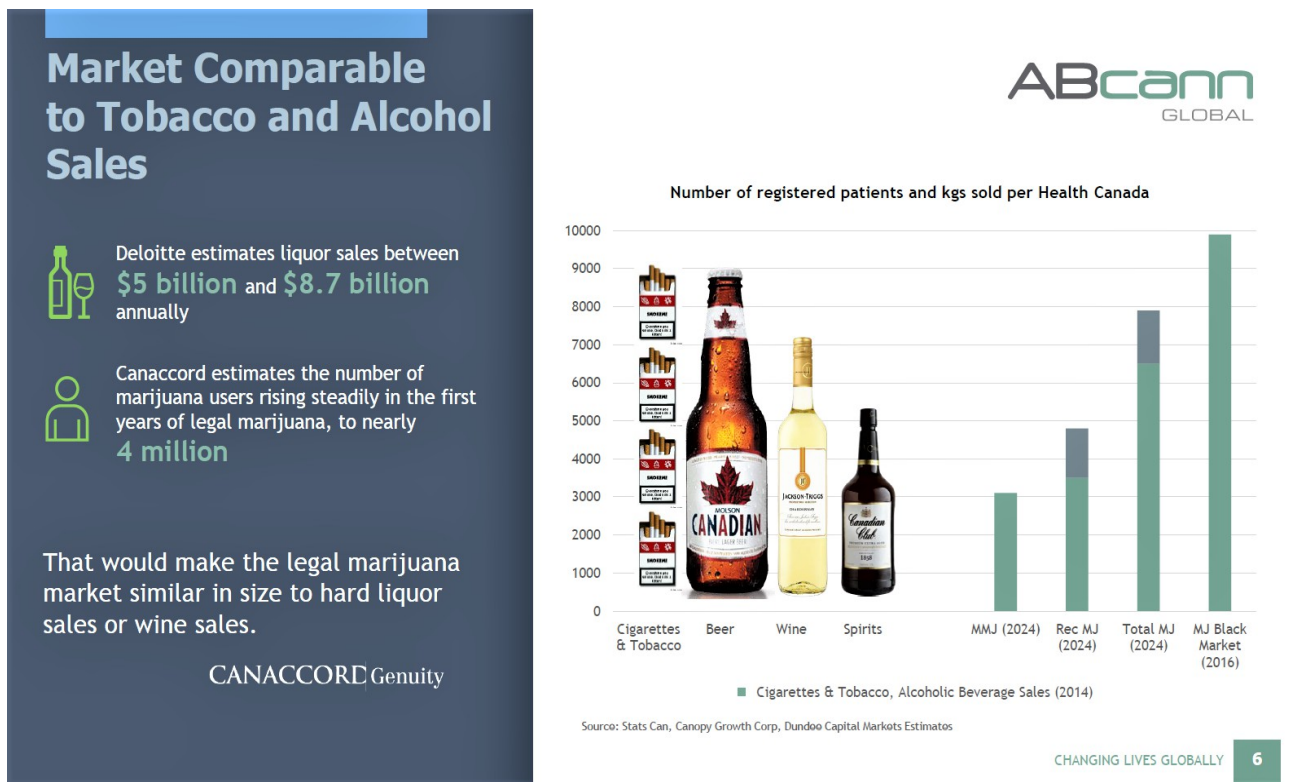
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But we do not need to forecast, we only need to know where we are now on the 'S curve' and follow the progress to 50% or more and I expect that is 3 to 6 years away and there will be around 500 to 1,000 producers at least by then.

We know it will be at least three years for substantial production growth and that will not be close to enough.

[Deloitte estimates the market has a base retail value](#) between \$4.9 billion-\$8.7 billion, which would rival the size of the Canadian spirits market, which is \$5 billion.

[ABcann](#), another Canadian producer has some good graphics in [their presentation](#), below compares to alcohol and tobacco market so a good picture of the potential market. Note by 2024 we could see this market near it's potential.



I believe the estimates could be low because not everyone would answer honestly if they use marijuana.

Even so to meet the low end of the estimates for the adult-use market, Canada would have to produce over 600,000 kg of cannabis a year. In Ottawa paper, Health Canada predicts 655,000 Kgs usage when it becomes legal.

A better estimate would be in the middle of the Deloitte numbers and that would be 840,000 kgs.

Aaron Salz was the first investment analyst on Bay Street to specialize in Canada's cannabis industry, and is now a consultant to some of the big growers. He estimates the current market is producing 80,000 kgs, **so that would mean 9.5% market penetration.**

As the market develops we will get more and better forecasts plus actual data and it should be easier to measure market penetration.

Above when considering the registered users, they probably use more than average if they went to the trouble to get medical approval, so maybe is a factor why that penetration level was low, less than 1%.

No matter how you slice and dice numbers I believe it is very accurate to assume we are between 5% and 10% market penetration in Canada. This means we are at the bottom of the 'S curve' but we have acceptance of this market. This is the best place to be on the curve and means we have seen nothing yet as far as growth and even more higher valuations on the POT stocks.

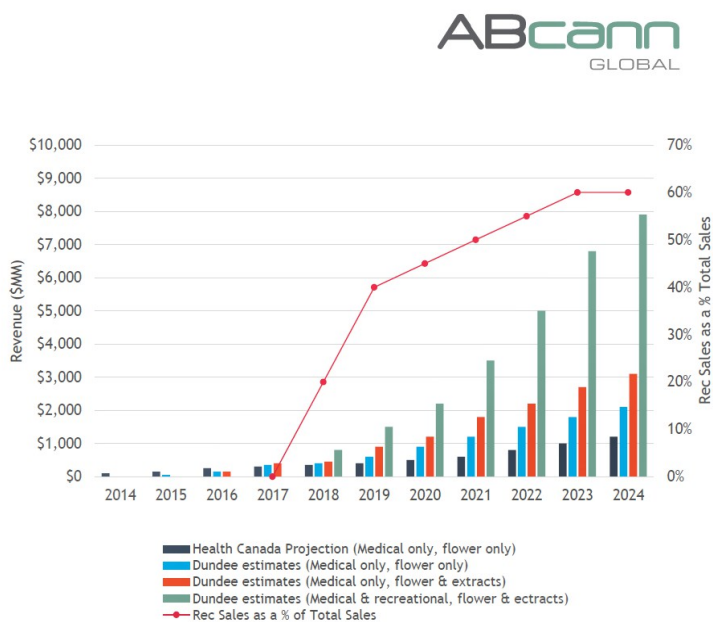
Again another slide from Abcann presentation, note where we are now, 2017 to expectations to about \$8 billion market in 2024. It also shows currently between 5% and 10% market penetration.

## Potential of \$8 BILLION in Sales by 2024 in the Canadian Market

According to Cannacord, recreational marijuana adds to the bottom line

“The rigorous process of becoming a licensed producer of cannabis in Canada imposes significant barriers to entry and there will be a shortfall of supply in a legalized market in the short-term until production capacities catch up by 2020, according to Canaccord.

— Canaccord Genuity Group Inc.,  
November 2016



**For Cannabis Wheaton and the Canadian growers, all the growth potential is still years ahead of them.**

By the time we hit 50% market penetration, the revenues at these Canadian producers will multiples of today's numbers. Just look at Canopy numbers a day or two ago, 50% higher than previous qtr. and 191% higher than a year ago.

More investors will get convinced in as the big growth in this market is just starting. I will not be surprised to see Canopy, Cannabis Wheaton and Abcann among others to see stock prices of \$50 to \$100. When smartphones started we got into RIM at \$7.00 around this level on the 'S Curve'. We sold out at \$100, but the stock actually went to \$200. Smartphones are a bigger market but you can still assume 15% to 25% of Smartphone users probably also use marijuana, more so younger generation.

I plan on adding some of the producers to the Selection List.

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