

HOT HOT HOT!

Paladin Labs (Version 2.0 Knight Therapeutics)

v.s.

Medical Marijuana Mania Inc.

***Most great investments begin in discomfort ...
Bargains are usually found among things that are
controversial, that people are pessimistic about, and that
have been performing badly of late.***

***Howards Marks
Oaktree Capital***

There will never be a bell that "gongs" a loud warning to let everyone know the market has peaked. We can't tell you with any degree of certainty when the next correction or bear market will occur. Presently, there are some disturbing anecdotes of market froth and heightened exuberance.

As the following two stories illustrate, the speculative juices are alive and well in the Canadian market. Today's market behavior and valuations bear no resemblance to the pessimism prevalent during the 2008-2011 period. Perhaps a good warning sign for investors to be more cautious.

Story #1 - Medical Marijuana Mania

This is not a taxi-driver investment anecdote, but rather one about my eighty-two year old mother, Claire. Yes, you heard me correctly.

For those of you who have not been paying attention, the Canadian government has recently changed its laws and made it legal for any Canadian licensed company to grow and ship medical marijuana to patients. Canada's new pot laws are federally regulated and uniform, making it more palatable to potential start-up capital. This

has created a "gold rush" mentality amongst investors and venture capital. But, before investors become blinded by dollar signs \$\$\$ & greed, it won't be that easy to obtain the required federal operating license.

And how does this marijuana story relate to my mother? The other week, out of the blue, and without any prompting, she asked me if I could purchase a medical marijuana stock (and if I knew of any good ideas) for her portfolio.

Firstly, in my twenty-five years plus of managing mom's portfolio, I can only remember a few times when she requested I buy her a specific stock. This is a woman who speculates in the "exotic". Think TD, Johnson&Johnson, Exxon, Saputo...you get the picture. "Claire", "marijuana", and "investing" are not normally words found in the same sentence.

In reality, mom usually has a very good nose and track record for making money in the stock market. In fact, the week prior to her request, I had personally invested in a private placement in this very same medical marijuana field. The key element being my investment was made at a very attractive (low) valuation and with operators who have past experience. Nonetheless, until a federal operating license is granted, this is a very speculative investment.

Obviously, the retail investor is foaming at the mouth at the prospect of the next "super growth" industry. As is usually the case, a few early birds will make quick speculative profits while the majority will see their "pot" investments go up in smoke. Sort of reminds us of the internet/tech gold rush of the late nineteen-nineties. It's certainly an environment of "buyer beware".

Story #2 - Paladin Labs (Version 2.0 Knight Therapeutics)

Investors have always been warned that "past performance is no guarantee of future returns". Yet you would never know that when looking at the stock of Knight Therapeutics, the recent spinoff from hugely successful Paladin Labs.

Based primarily on the track-record of Jonathan Goodman`s tenure at paladin Labs, (\$4 to \$150), investors have recently shoveled approximately a quarter billion dollars of new cash for Jonathan to play with in an almost empty canvas corporate shell - now called Knight Therapeutics. Investors should understand that much of the stratospheric stock price appreciation of Paladin occurred in 2013 with the takeover offer for the company. The stock jumped from \$40 in late 2012 to \$140 by year-end 2013. In December of 2008 Paladin was an \$11 stock.

This is all to say, patient investors will have plenty of opportunities to invest in Knight Therapeutics down the road. If history is any guide, one may even get lucky and buy these shares for less than the cash in the business, as the Value Contrarian Fund did in 2002.

Today, investors seem to be forgetting that over the last twelve years the low hanging fruit in the pharma field has been mostly picked over. In addition, low interest rates have also bid up potential acquisition prices. I remember when Paladin issued shares at \$9.00 and the stock promptly sank to \$4.00.

Bottom line, patience and bear market pessimism may provide investors with a more opportunistic entry point in Knight Therapeutics.

Regards,

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V/C Fund year-to-date results

March 31st 2014: + 3.21%

(Next purchase: April 29 2014)

Please note: The timing of Ben's Market Comments has no specific dates. E-mails will only be sent when something of value should be shared.