*Dan Ferris:* And I want to introduce the next speaker who is a friend of mine who I met him at the value congress. I wonder if he remembers that many years ago. And he wrote a wonderful book and he was on the podcast, we've had on there a couple of times. One of the smartest investors I know, his name is Aaron Edelheit, he's the CEO and founder of Mindset Capital a private investment firm.

In his previous role as the CEO of The American Home Aaron founded and grew a company from 16 rental homes to one that owned 2,500 single-family rental homes. He sold it in April 2015 to a publicly traded real estate investment trust. Brilliant, right?

Aaron also founded an ran a successful money management firm Savor Value Management from 1998 to 2011. In 2018 Aaron released his first book The Hard Break: The Case for a 24/6 Lifestyle, which covers this question, what if the real secret to greater productivity, happiness and success is a habit that is thousands of years old? I adopted the habit myself, it works, read the book.

Ladies and gentlemen, welcome Aaron Edelheit please.

*Aaron Edelheit:* Great to see you again.

I want you to imagine an opportunity to invest in a mythical industry with $100 billion in current revenue and it's on its way to $200 million plus. In which capital is scarce, institutional participation is tiny, and where many publicly traded companies involved in this industry are not listed on any major index or traded on any major US exchange.

Now imagine that these publicly traded companies have defensible moats, strong management teams, and possess 10 years of reinvestment opportunities ahead. Further, I want you to imagine that this magical sector has crazy inefficiencies where similar companies traded wildly different valuations for no apparent reason. And where you could buy industry leading companies growing at over 50 percent while trading for single digit cash flow multiples with little if any leverage.

I'd like to welcome you to the US cannabis industry. Thanks to a conflict between state legality and federal illegality a US company that touches the cannabis plants cannot trade on any major US exchange. And instead trades on secondary and tertiary Canadian exchanges.

Add in concerns regarding custody with major brokerages and prime brokers and you are left with little or no institutional involvement where some estimate it is as little as four percent. No index owns any US cannabis companies and thus I believe represents an incredible opportunity.

And that is why I'm launching the Mindset Value Cannabis fund, which will be solely dedicated to invest in publicly traded cannabis companies that are involved in the US market.

But cannabis is not just a great investment opportunity but it's fundamentally a big positive for society. Specifically, I'm attracted to the enormous health and wellness benefits. Consumers of cannabis have been shown to binge drink less, use less opioids, use less powerful prescription drugs. The medical benefits are numerous including the ability to quit opioid addiction, tolerate powerful cancer medications, migraine pain relief, pain relief in general without the risk of addiction. And helping with insomnia and post traumatic stress disorder.

Studies show that cannabis users are surprisingly active and recover from injury more quickly. Athletes have long used cannabis and are now becoming more focal about the surprising anti-inflammatory properties of cannabis and their ability to heal quicker and bounce back faster.

It's incredibly interesting to read how ultra-marathoners are running faster and longer with cannabis and how cannabis edibles are taking over the running world. So much so that the regulatory bodies that are overseeing ultra-marathoners are currently discussing whether to outlaw cannabis as a performance enhancing drug.

All of this is well documented but might be a shock to most people who grew up in the reefer madness era in which people believed that cannabis led to decadence or worse sitting on your couch and wasting your life away. Cannabis has been falsely demonized for many reasons. And one of the most fascinating things as I've spent the last couple of years researching the industry and cannabis itself is once you peel back the layers, how so much of cannabis and the history behind it is all based on racial reasons.

First, to restrict Mexican immigration and second, against African Americans. But all of this is coming to an end as state after state legalizes either medical marijuana or full adult use. The benefits to consumers and society and the economy just become too powerful to ignore. And one of the most remarkable things is do you know what happens after a state legalizes cannabis? Not much. Nothing changes. If anything, people use less prescriptions, they use less opioids, they drink a little less. Teenage use is actually been shown to fall following cannabis legalization.

But even more important is the economic argument. There are now over 321,000 people that work in the legal cannabis sector and that was up 80,000 jobs in just 2020 alone. And there is a lot of news on taxes, a lot of budget deficit spending. Guess what is really easy to pass in terms of increasing taxes? Cannabis. And so, you're finding that it's making a budget surplus and becomes an easy path for politicians, especially state and local to get behind.

But maybe the craziest data point in favor of cannabis legalization, the one that I found the most fascinating is that worker compensation claims go down in states after the legalize cannabis. You ask wait a minute, what? Why would worker compensation claims go down?

And then you realize that people are self-medicating with very harsh prescription pills, alcohol, and other things that are significantly impairing their ability to do their job and they're getting injured. And when cannabis is legalized, they switch to cannabis and they become injured less, which is just a remarkable datapoint.

And so, the benefits to both the health and the economy and society why not legalize it? And in this regard the states are moving much faster than the federal government but even faster is how cannabis is being normalized. Almost 70 percent of all Americans now believe cannabis should be legalized. And I honestly can't think of another issue in this time where 70 percent of Americans agree on anything.

Personally, I benefitted as well. What brought me down this journey is I have suffered from insomnia and I would not wish that on my worst enemy. And now, with cannabis tea or a low dose gummy or a little chocolate when I suffer from insomnia, I get a good night's rest. And I have three small kids and a good night's rest is really important.

And now just knowing that its in the cabinet, that if I have my head on the pillow and I know that it's longer than an hour that it's there for me is enough. And that is so much better that I can wake up in the morning and not feel groggy, not have a hangover. And it has been, it has, frankly, changed my life. And I'm not alone in discovering this. I have family members and friends who use it for knee pain and back pain and migraine relief. And this reminds, this whole industry is reminds me of when I first got involved and started buying houses in 2009. When I launched my first very small fund in March of 2009 people thought it was very strange to buy homes.

I started with one small fund, I bought 16 homes, fixed them up, and rented them out. And I ended up buying 2,500. And as was mentioned, we sold the company in 2015 to a publicly traded real estate investment trust in what was then the largest single transaction of homes in US history.

My investment thesis on buying the foreclosed homes was that the US could not produce 400,000 homes a year for very long and needed to be producing a million homes or more. Or otherwise, you the country was going to find itself in a massive shortage of homes and it was only a question of when.

And I also quickly realized that it was not a trade but a long-term business. Yes, scattered site management was more expensive to manage but it turned out that when you have a home a family is living there and it turns less. You have less turnover; it mitigates the extra cost of managing scattered sites.

And so, the overall margin profile was very similar to apartment buildings. And it’s fun to watch the whole investment world and all investors out there look at single family as an asset class. And to see this massive shortage of homes and people bidding wars and everything and realize that that is all a direct result of what happened in 2009 through 2014.

And it's fun to look at it because people used to look at me like I had a third eyeball when I started doing this in 2009. And I believe the same thing is happening in cannabis. For many reasons professional investors are ignoring the cannabis space just like they ignored single family homes. I either hear indifference or comments that cannabis is an agricultural commodity or even more bizarre is when investors lump it in to the bucket with cryptocurrencies and I assume that's because there's uncertainty around the regulatory environment for both.

Regardless, if an investor has patience, you can see what is coming, which is some form of legalization. When that happens, you won't have companies trading on the Canadian securities exchange or the \_\_\_\_. You will have them trade on the Nasdaq and the New York Stock Exchange. Consider, for example, Verano Holdings, this company is considered a multistate operator and they should earn something like $1.3 billion in 2022 and generate almost $600 million in cashflow. At around three and a half billion-dollar market cap it trades for less than three times revenue and around six times cash flow.

That is for a company with a three-year compounded annual growth rate of over 50 percent with EBITDA margins north of 40 percent. And it's possible that when I go out to some out years like 2024 that Verano is trading at four times cashflow. Why is that important? Well, I'd like for you to look at another industry that used to be illegal, online sports gambling. Draft Kings is now public, it trades on the Nasdaq and currently trades for 40 times 2024 EBITDA.

So I can make a pretty compelling case that Verano offers the opportunity for 10 times return if it were to achieve a similar valuation to Draft Kings. And I would simply also use as other evidence prominent consumer package good companies or alcohol, branded alcohol companies that are growing at three, five, maybe seven percent if they're lucky and trade north of 20 times.

But what's interesting is, is that the longer legalization takes the better it is for leading US public companies. Why? And that's because there's only about 15 companies that have access to capital in this capital constrained environment. And this is the most remarkable thing about everything is we live in a world right now where the US is awash in capital and I'm talking to you about a massive industry that is capital constrained and almost capital starved.

Where only about 15 companies have access to the capital markets and even they have to borrow at seven to nine percent. But they can borrow at seven to nine percent, they can issue equity, they're generating a lot of cash flow, and they're smaller competitors are lucky if they can borrow at 15 to 20 percent.

And so, anyone trying to follow them, these companies are left building out their economic moats. And so, I'd like for you to consider all the barbarians at the gate like big tobacco, leading alcohol companies, or consumer package good companies, or the giant private equity firms that are all holding off investing in the industry due to fears of what the federal government regulation is or isn't.

British tobacco has a strategic plan called Beyond Nicotine. They have tens of billions of dollars of free cash flow. Please tell me what is beyond nicotine besides cannabis? When I was buying foreclosed homes in Guenette County, Georgia on the courthouse steps in 2011. I would compete against mom-and-pop investors, very similar to the retail investors in the cannabis space.

And we'd be buying homes at ridiculous prices, safe, suburban three-bedroom homes for $45,000.00. It's like a laugh now. That changed overnight in the summer of 2012 when Blackstone and Colony entered the market. Homes increased 50 to 100 percent overnight. And what's remarkable looking back is it seemed like oh my God, what are they doing? They're going crazy.

But they were right. Look at the portfolios that they've built, look at the valuations of their portfolios and their rental rates, they knew what was coming. They knew what real asset management and what an asset \_\_\_\_ looked like, they had a cost of capital advantage and they changed the industry.

And this is also one of the reasons I'm very excited at least for my fund is I'm partnering with another pioneer in the single-family rental space, Doug Brian, who is currently the CEO of Mind and Next Generation Property Management Company but he used to be the CEO of Starwood Waypoint, which was one of the publicly traded single family rental companies.

He started out as Waypoint, they merged with Starwood Waypoint, then Colony bought him. Now he runs Mind, which is a next generation property management company close to being a unicorn. Invesco just gave Mind $5 billion to buy single family rentals. So look at the progression of how homes were a toxic asset that no institution would buy and now here we're 10 plus years later, lots of percentage point increase in price later. And Invesco is allocating $5 billion to the sector.

Now what's great is Doug was a kicker for the San Francisco 49ers. He has a Super Bowl ring and he's a big believer in the health and wellness and pain relief aspect of cannabis just like I am. And we believe just like single family rentals this cannabis space has a 10 plus year opportunity ahead of it.

Just to give you a sense of where this could go. So it's right now the cannabis sector is about $100 billion revenue market. Now most of its illegal so about $25 billion is state legal sales. And right now, the legal market is growing much, much faster than the illegal market. I would actually argue that the legal market is eating the illegal market. Now why? Let's just thing about it. In the end, it's really hard to compete against companies because companies can offer you quality, they can offer you safety, they can offer you choice, and access.

And so, you think about the different form factors. You think about edibles, you think about tinctures, you can think about vapes, you can think about smoking, and now drinks. And so, the legal market is growing much faster and that in the future this is going to be, you know, with not that much growth from where it's at now that this will be north of $200 billion market where most of it is legal.

Right now, the industry is seeing because of the regulatory environment like 40 percent plus IBADA margins. If I were to lower that down to 25 percent, you're talking about probably $50 billion of cash flow. I put an alcohol multiple on it even though the alcohol market is growing much slower and it's pretty east to get about a trillion-dollar market cap.

The entire US publicly traded cannabis space has about $25 to $30 billion market cap. So the opportunity is incredible. Now I'll give you another example of how big the opportunity is, the state of Florida, there's currently a foot race going on in Florida between three to five companies to open as many dispensaries as possible. The reason is, is many towns and local municipalities will only let two or three dispensaries in those towns.

One of the things that many people don't realize is the local regulations are just as important as the state and federal. But you have to be vertically integrated in the state of Florida that means you can't sell someone else's cannabis. So you have to grow, then you have to have the retail dispensary and so, the whole thing is like $25 million. So to just have one dispensary like the whole thing is really expensive.

Florida has about 22 million people there are only 600,000 medical cannabis patients right ow despite the incredible fast growth. Florida has a ton of tourists. You can estimate like what percentage of the market share when Florida goes from medical to full recreation. What will be the size of the market? It's not going to be 600,000.

And so, the opportunity of where this is going to go especially as people experiment and they realize they can use it for their benefit, and that it has a less toxic nature than many of the other things they were using, alcohol, opioids, etcetera. So the opportunity is enormous.

But what I want to tell you is that when I first had the opportunity in the housing market, I made a mistake. I should not have bought homes. I should not have gone through the pain and suffering of buying homes, scaling it up, fixing them, and renting them. I saw an incredible long-term opportunity in the absolute bottom of the housing market.

And my mistake in hindsight is it would have been so much easier and so much more lucrative to simply buy the best housing related stocks. Lennar, D.R. Horton, Home Depot, Sherwin Williams, Fortune brands and Moen. They all went up five to 10X in the last 10 years. Home Depot went up 10 times in 10 years.

And this is the opportunity is there are great managed companies out there right now. There are strong opportunities and you have companies with moats, clear cut strategies that trade at ridiculously low valuations in a capital starved environment that is a benefit to society. And that’s why I'm jumping in with both feet because I want to be involved in the sector and I'm looking around like I'm on the courthouse steps. Or I am looking around and saying why aren't there others like me researching the cannabis industry?

And so, I would encourage everyone here to do research, to look for investments, to do research on the cannabis plant itself. I think this is the decade of cannabis. And I'd be happy to answer any questions right now.

*Audience:*  Are you establishing funds?

*Aaron Edelheit:* Yes, I'm launching a fund on November first.

*Audience: [Inaudible]*

*Aaron Edelheit:* It's a private investment fund that will open and close the first of every month. I mean I don't plan to use any leverage and the goal is to research, invest in the best run cannabis publicly traded companies that have clear cut strategies. To build a portfolio of 10 to 15 of them and then, tie myself to the mast because whenever this actually goes legal, you're not going to want to sell.

*Audience: [Inaudible]*

*Aaron Edelheit:* It's a great question. I think the question is why does the federal government not approving it? I believe that what's happening is, is the way I'm viewing things is things are being normalized much, much faster than they're being legalized. And so, there has been a lot of myths, a lot of misunderstandings, and frankly, outright lies about what cannabis is, what it does, and how it affects society.

And we are undoing that and if you just look at the federal government and who runs it, primarily it is an older crowd that, frankly, grew up in an era when cannabis was going to destroy society. And so, if you look through the Pew Research polls about who supports cannabis, the younger groups like GenZ millennials you have approvals approaching 80 or 90 percent. And a really smart private equity investor in the space has called these generations, they're calling them cannabis native generations.

In other words, they're growing up in the first time where it's not illicit. When it's actually state legal. And I think what's really driving this and you're seeing this across, I don't think it's a political thing, I don't think it's so much like red or blue because when you have the state of North Carolina, the state of South Dakota, you now have Texas allowing medical marijuana and you look, they're seeing the opportunity. They're legalizing it and then they're watching what the neighboring states are doing and they're like nothing bads happening and we're getting more tax revenue and more jobs.

And so, it's a great question and that's why I don't have the right answer other than that I think it's based on myths and misunderstandings. And that why I believe it's a question of when and not if.

*Audience: [Inaudible]*

*Aaron Edelheit:* There's lots of them. There is a bill that they're trying for full legalization. There's different banking bills to allow the banking sector to come in and not be prosecuted. More and more what's interesting is the federal courts are getting involved because congress' job is to regulate commerce. And 80 years of court rulings show that it's congress' job not just to regulate interstate commerce but intrastate commerce.

And so, what the states have done is they've said hey, we're going to legalize cannabis but we're not going to let it cross borders. Because we don't want to get involved with the federal government. But the congress is actually shirking their responsibility which is to regulate commerce. There's no difference between inter and intrastate commerce. And so, the Supreme Court this summer, Clarence Thomas, one of the most conservative, came out and said hey, wait a minute, what's going on here? And it's like this is not safe and specifically highlighted that a lot of these businesses have to deal with cash and it's inviting crime. And you have a lot of members of congress now saying it's a safety and crime issue.

And so, I believe that when he wrote that memo, Justice Thomas was, basically, firing a shot across the bow to say hey congress, do your job. If you don't do your job, we will.

*Audience: [Inaudible]*

*Aaron Edelheit:* Oh, absolutely. One thousand percent. I can tell you is that they're all looking, they're all doing their due diligence, and -- the question is do you think any of the alcohol or tobacco companies are looking into this space? And 100 percent, they're all doing their work, they're all trying to figure out how to get in. They don't want to jeopardize their New York stock exchange listings or their chief access to debt, etcetera.

And from what I understand they're just going to come in and just start buying. And that they're trying to figure out different vehicles and ways to get in. And what's really interesting is the Canadian, so cannabis is legal, federally legal in Canada. This is the most bizarre thing. Cannabis is federally legal in Canada and because of that leading cannabis Canadian companies can trade on the US stock exchanges.

So I'm sure you've heard of Tilray and Cannabis Growth, none of them are profitable. The way the Canadian market has been set up is it's not been very good. It's still growing but it's not a profitable market. Canada as a size is smaller than California by itself. I can't even value them on cash flow because they're not profitable. They trade at three to five times on a price per sale basis as US companies.

And so, Tilray, for example, trades 30 t 40 million shares a day and a company that I really like, Air Wellness or Verano are lucky if they trade 2 or 300,000 shares a day. And what I know from them – this is long winded getting back – they're looking to get in. They are trying to figure out different vehicles to get their capital in because they have this really valuable stock currency of being listed on the New York Stock Exchange and Nasdaq and they know the big prize is the US, how do they get in?

But this is the great opportunity is right now you have existing US leading companies that are building out footprints and infrastructure and limited licenses and etcetera. And they're building brands and they have no competition. And to get in, the only way to get in is to buy.

I think there was a question over here? Yeah, right there.

*Audience: [Inaudible]*

*Aaron Edelheit:* So that's a good question. Right now, credit unions can do the banking but no big bank, no really big federally mandated bank is involved. What you are seeing and this is what's really fascinating is that more institutional capital is coming in on the debt side. So you're seeing just in the past 18 months they used to be able to borrow, the leading companies would borrow at 10 to 12 percent and now its seven to nine percent.

And you're seeing more institutional capital come in on the debt side. And what's so fascinating about that is since February when hopes were really high the democrats were going to legalize cannabis and because of the limited capital nature of the markets, the cannabis sector is down somewhere between 30 and 50 percent since February ‘cause they realized legalization may not happen for a while.

Over that same time period capital costs have come down. And what I can honestly say after 25 plus years in the investment markets is that debt guys are the smartest guys in the room, generally. Because they have limited upside and so they gotta make sure their downside is protected. And so, whenever you see a divergence where debt gets more \_\_\_\_ than equity it's a really interesting opportunity.

And so right now, the capital costs are starting to come down, it's mainly kind of institutional private capital but the direction is clear.

Oh yeah, sorry.

*Audience:* I know that you said that there's a 10-year plan with these companies. You said that the US companies are listed on the Canadian stock exchange is that correct?

*Aaron Edelheit:* That's correct.

*Audience:* So they want to move over to the American stock exchange?

*Aaron Edelheit:* Well, the minute they can, yes, because right now I want you to imagine that if you use Robin Hood you can't buy a US cannabis company. If you custody at \_\_\_\_\_\_, which most people do, you cannot buy cannabis, Credit Swiss, Bank of America. If you're not in any US index. We all know what index investing is doing. I talked to a portfolio manager who's one of like five portfolio managers at an $80 billion investment fund in Boston.

He called, he reached out to me because I've been writing about cannabis. And he called me and we start talking and he likes this company and that. I'm like oh wow, so you're investing in this stuff? And he was like oh, no, no, no, no, our compliance department won't let us invest. And I'm like why are you calling me? It's like oh, the five of us personally, this is all will be owned.

And so, the compliance department is like no, we don't want to risk our assets under management for a couple of basis points of out performance. And so, when I'm launching my fund I'm using the auditing firm of Spicer Jefferies, they're like the number seventh largest auditor for hedge funds. They audit 1,200 hedge funds in the US.

And my client service guy says oh, this is great, you're going to be the second cannabis fund. I'm like oh wow, out of 1,200. He was like yeah, the last one was started three years ago. And that's the opportunity, there's just no capital in the sector and that's what makes it so exciting.

*Audience:* I know that you said your fund starts in November *[inaudible]*?

*Aaron Edelheit:* Yeah, absolutely. No, the reason I'm being very public about it is I see this massive gap. I see this massive hole where you can invest in really good companies with good management. Now, don't get me wrong, this industry is still, ‘cause it's kind of like the wild west, you have some unethical characters. You have people that don't know what they're doing, but there is an opportunity to invest in really strong companies that are well managed where you can put quite a bit of capital to work.

And I believe we're literally in the top of the first inning. Because what's really wild is you have a company like Verano that I mentioned, they do the cultivation, they do wholesale distribution of not only their products but others. They own their own retail dispensaries. They're developing their own brands. They're also sitting on $3 to $500 million of unencumbered real estate. Why? Because the expensing, the sale lease \_\_\_\_\_ of anything of the real estate because its cannabis related, it doesn't make sense to them right now.

Capitalism is great at slicing and dicing. And so, we're not even in the phase of branded companies or just wholesale cultivation or hybrid models or just the retail. We're in the very, very beginning. So I think that there's going to be a long term opportunity around everything around cannabis. Not just growing it, not just selling it, brands, possibly lifestyle, technology, payments, etcetera.

*Audience: [Inaudible]*

*Aaron Edelheit:* I'm not sure I heard the question, I'm sorry.

*Audience:* How do you invest?

*Aaron Edelheit:* You contact me. Well, you can find me on my website, which is mindsetcapital.com and I'm also active on Twitter under the handle Aaronvalue. And you can also, I write a sub stack of free weekly newsletter, which is mindsetvalue.substack.com. I'm sure if you reached out to the Stansberry they could pass along my contact information.

*Audience:* What size investments are you looking for?

*Aaron Edelheit:* What size?

*Audience:* Yeah.

*Aaron Edelheit:* My goal here is I want to make sure that I – because I don't know when this is going to happen it's really important for me that the capital understands the uncertainty is related to timing. And that I am going to be investing in stocks that are on secondary and tertiary Canadian exchanges. It means they can move. This is a long-winded answer that I'd much rather have less capital that was patient and understood what was going on and the right capital markets than more. So I don't have a minimum investment but it is for accredited investors.

*Audience:* You just answered. I wondered if you were going to go regulation A?

*Aaron Edelheit:* No, no, this is for accredited investors, I should have mentioned that, I'm sorry.

*Audience: [Inaudible]*

*Aaron Edelheit:* So that's a great question. There are two ETFs, MSOS and MJ and to be honest, I don't understand how they're specifically constructed. I don't understand the sizing that they're using and I'll give you one example. They own, at least one of them owns Innovative Properties, which is a New York or Nasdaq listed REIT that gets an exorbitant valuation because it's listed in the US but they actually prey upon the weaker in the cannabis space.

So if you're actually super bullish on cannabis and you don't want to bet on them, they're a bet that this never happens. And so, if legalization happens their whole business model falls apart and the companies that have used them to do sale lease backs with really expensive financing suddenly are going to find themselves with very, very expensive properties and its' going to set them at a significant disadvantage.

So there's little examples like that. I also don't believe that they own the right companies in the right sizes or that they are also several smaller companies that maybe are a little more risky or some technology plays that are not in the index that are super interesting like special situations.

*[End of Audio]*