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## California is poised to become the center of cannabis culture

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This article by Robin Abcarian for the Los Angeles Times may be of interest to subscribers. Here is a section:

Personally, I am not a weedinista. I hate feeling stoned. I don't think pot will save the world, and dependence, especially with younger users, can be a problem. But I do think, in some settings, it can work miracles.

A year ago, probably after hearing me knock pot smokers one too many times, David Downs, a San Francisco cannabis journalist, who is married to my niece, sat me down and explained something I hadn't known. There are two important components in marijuana. The primary psychoactive ingredient in pot is THC, which also has medicinal properties such as pain relief and nausea reduction. And there's CBD, a non-psychoactive ingredient that has been shown to be helpful for many ailments, including epilepsy, cancer pain and anxiety.

Increasingly, researchers are investigating the health benefits of CBD. Growers, in turn, are meeting consumer demand for pot strains that are high in CBD and low in THC.

You can achieve a tremendous benefit from high-CBD marijuana and never feel stoned.

This was a revelation.

### Eoin Treacy's view

I have to smile at signs proclaiming UCLA is a smoke free campus when driving through Westwood Los Angeles since the smell of marijuana smoke is such a common occurrence. Cannabis is available to anyone who wants it today and not just in California. Considering it is now legal in a handful of states and the FDA is coming under increasing pressure to reclassify it, the movement to build a greater awareness and market for the drug is increasingly successful.

### Email of the day on China and governance

In Friday's audio, you speculated about possible reasons for China's tightening of social conditions. The following report from an Australian reporter in China, leaves me with little doubt. Xi has already shown his cards. If the country is opaque today, the future will be more so. If governance is everything, China will be a laggard.

My first assessment was that more centralization and tougher social conditions in China would delay economic growth but I now think the opposite is just as likely.

The need for economic reform has been obvious but progress has been slow. Debt has increased, excess capacity remains a serious problem while attempts to influence stock markets were ham-fisted. The failure of the bureaucracy is evident but implementing tough economic policies in the face of public resistance has been difficult. The existence of the country's strongest unions in the infrastructure and heavy industry sectors, seems to have made change impossible.

In the West we are seeing how democratically elected governments are being taken over by populists whose promises are unrealistic and mostly damaging to their economies. In Australia we are at day nine in an eight week election campaign where the economically conservative government, which is acutely aware of the nation's unsustainable path, is struggling to sell a moderate budget which sees debt continuing to increase while depending also on continuing world economic growth and financial stability.

Premier Xi has no intention of allowing China to go down that same path. He can see the country's problems as clearly as we can but the system has failed.

I can easily see Xi blaming bureaucrats and weak leadership in the provinces. The scene is being set for a major purge. A second cultural revolution. Xi can see what the markets are saying and he could use his power to implement tough economic policies. There will be significant short term social pain and major economic risks but a strong turnaround in the economy is likely to emerge. China could regain its position as an economic powerhouse.

The period of turmoil will see China's markets collapse. This will be a black swan event. Knock-on effects around the world will be serious but, as is often the case, will be another good long term buying opportunity.

### **Eoin Treacy's view**

Thank you for sharing your perspective and this article highlighting the increasingly leftist leanings of Communist Party rhetoric. Most forward looking societies prize bettering oneself through pursuing education and China is no different. Therefore regardless of how you dress it up in idealism, relegating the most educated people in society to its lowliest echelons can only be considered a retrograde step.

### **Bull Market Losing Big Ally as Buybacks Fall Most Since 2009**

This article by Lu Wang for Bloomberg may be of interest to subscribers. Here are two sections:

The first-quarter slowdown was mostly executives responding to the economic and credit stress earlier in the year, according to Joseph Amato, chief investment officer of equities at Neuberger Berman LLC in New York, where the firm oversees \$243 billion. As the fear subsides, buybacks are likely to stay elevated, he said.

"The scare in the first quarter was overblown," Amato said. "The economy is growing on the global basis at a reasonable level. That, in our mind, would suggest that companies will come back and have a typical buyback program consistent with levels of the last few years."

And

Their role in keeping the bull market afloat is more pronounced this year. According to Bank of America Corp., the firm's trading clients from hedge funds to wealthy individuals were net seller of stocks for 15 straight weeks through May 6, a record streak. The only buyer was corporations scooping up their own shares.

"Companies have been a fairly consistent buyer that has supported the late stage of this bull market," Channing Smith, a managing director at Capital Advisors Inc. in Tulsa, Oklahoma, said by phone. The firm oversees about \$1.6 billion. Their potential retreat means "there is less firepower to counter any type of bout of selling," he said.

### **Eoin Treacy's view**

I devoted a lengthy discussion in the Subscriber's Audio on Friday to the role of buybacks in both supporting the market and manipulating valuations by decreasing EPS. Anything that impinges on companies buying back their shares represents a challenge for the market. Corporations have been the primary driver of demand for shares and buybacks have been an important artery for the transmission of central bank liquidity.

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