Ahoy, Crow’s Nesters!

We’re rolling into the end of summer, and there is no shortage of news to bring to you this month. That being said, I’ll save the pirate metaphors for next month and get right down to business.

This month, we’re going to introduce two new recommendations, which we’re calling our Delta-9 portfolio. This will deal directly with pharmaceutical companies that are engaged in using marijuana to treat illnesses ranging from cancer to epilepsy to Parkinson’s. While so many investors are falling into the trap of fly-by-night marijuana stocks, we’re going to show you where the safe money is in this budding industry.

We’re also going to set the stage for the next market correction. We’ll be setting up a “Buy List” of long-term stocks that will be available on the cheap when this inevitable market crash hits. As I’ve said for the last few months, we’re in for a correction — it’s just a matter of when. And based on Janet Yellen’s last Fed meeting at Jackson Hole, that correction may be coming sooner than the mainstream media thinks.

Just have a look at what Yellen said at her first Jackson Hole meeting as “the boss”...

Now typically, these Jackson Hole meetings have serious implications for the stock market. Former Fed Chair “Helicopter Ben” Bernanke turned these Jackson Hole speeches into full-fledged global market movers. Just have a look at what happened after each of his speeches there:

- **2007**: Bernanke stated that the Fed “stands to take additional actions” to stabilize the market. The Dow shot up 119 points.
- **2008**: Bernanke mused that interest rates would stay near zero. The Dow jumped 197 points.
- **2010**: Bernanke hinted that QE2 was on the way, citing the Fed’s willingness to try “unconventional measures.” The Dow went up 164 points. Investors that bought in immediately following the speech banked 20% returns over the rest of the year.
- **2011**: Bernanke didn’t even lay out anything tangible — he simply hinted that unemployment was too high and that the Fed would do what it could to try and fight it. How did the Dow react? By rising 134 points...

That’s why Janet Yellen has been carrying the nickname of “Fairy Godmother of the Bull Market.” We’ve just gotten used to reaping massive gains after every one of these meetings. But after Yellen gave her first Jackson Hole address as Fed Chair, the market didn’t quite know what to do...

It seems like the market may be all tapped out of that Bernanke Magic.

In her speech, “Re-Evaluating Labor Market Dynamics,” she basically stuck to her guns but did acknowledge that while the stock market is riding all-time highs, the labor market is still stuck in the muck. She cautioned against making any sudden moves. According to one strategist, “She gave everybody a bone and didn’t commit herself to anything that the market hadn’t already considered.”

Here’s a rundown of the main talking points from “the Hole”:
• **Interest rate hikes are somewhere on the horizon, but that horizon is awfully blurry.** Yellen warned policymakers to tread carefully before raising rates. In typical bloodless economist jargon, she said, “Monetary policy must be conducted in a pragmatic manner that relies not on any particular indicator or model, but instead reflects an ongoing assessment of a wide range of information in the context of our ever-evolving understanding of the economy.”

• **Yellen admitted that while some statistics show encouraging job growth, the labor market at large is still in trouble.** “Five years after the end of the recession, the labor market has yet to fully recover.”

• **People that are employed have seen a pitiful increase in wages.** “Over the past several years, wage inflation, as measured by several different indexes, has averaged about 2 percent, and there has been little evidence of any broad-based acceleration in either wages or compensation.”

When it comes to the labor market, she did hint at some of the wounds festering underneath these rosy job numbers. After rattling off excuses that the labor force had been decimated by baby boomer retirement, disability claims, and school enrollment, she hit the main nerve of this so-called recovery: worker discouragement.

“Profound dislocations in the labor market in recent years—such as depressed participation associated with worker discouragement and a still-substantial level of long-term unemployment.”

When I think of “profound dislocations,” I think of my arm being ripped out of the socket... not a tepid job recovery. So there was some truth behind the cold economic lingo. Let’s have a look at how “dislocated” Americans are when it comes to getting a decent job...

Let’s start with how much we’re getting paid in comparison to other “recoveries”:

![Weakest Post-War Wage Growth](image.png)

It doesn’t take an economist or statistician to decipher that chart. We’re simply not making nearly enough money. I can’t blame “discouraged workers” for not wanting to work for sub-par wages. While companies are posting record stock prices, they are doing so on the back of an underpaid, exploited workforce.

It’s plain to see that for CEOs and shareholders, everything is coming up roses because the middle class is the manure making those roses grow:
• Before the crash in 2007, the average household in the top 5% of earners had **16.5 times as much wealth** as the average U.S. household. Now the top 5% has **24 times as much wealth** as the average overall household.

• The top 20% of U.S. households watched their income grow by **an average of $8,358 a year** from the crash until 2012. The lowest 20% of earners? They witnessed a **$275 decline per year**. And that is data right from the Bureau of Labor Statistics.

I’m not making an anti-one-percenter argument here. I am all for smart, dedicated people making money. What I am saying is this is far from a holistic recovery. Main Street has never been so far from Wall Street. So when I see Wall Street cheering that stocks are at record highs, I scratch my head and wonder: **Did the Fed just sell out the rest of us for Wall Street?**

It sure looks like it... Just have a look at how the bulk of Americans celebrated Labor Day this year:

• **One out of four Americans relies on food banks of some kind.**
• Only half of all Americans can scrounge up $400 for emergencies without either borrowing it or selling off assets — like say, their cars, their houses, or even their blood.
• 76% of all Americans are living paycheck to paycheck.
• The U.S. has dropped to 19th place in the world in median wealth per adult.

These figures show that by and large, Americans are on a very leaky boat. Those leaks could add up to a Titanic-sized crash when water starts flooding in. That’s why we’re going to take a look at how legendary investors Warren Buffett and John Templeton made a fortune investing in safe equities after the crash of 1987.

Next month I’ll reveal an entire portfolio of Wall Street “fire sale” stocks that set you up for easy pickings.

In the meantime, let’s check out one of our most recent portfolio highlights:

**Charting the Course**

**Solazyme (Nasdaq: SZYM)**

While our position in Solazyme has been beaten back a bit, it looks like the turnaround could start now... and it will be a big one.

*Forbes* just ran a piece on the stock saying it has the potential to **double**. While I don’t get my investment advice from *Forbes*, thousands of other investors do. So when a bullish article comes out, you know folks will start snapping up the stock.
You see, Wall Street is an impatient bunch. They simply aren’t good at waiting around for companies to start banging out the profits. This is exactly what happened with Solazyme. After the company tinkered for years and experienced delays in its manufacturing plants, some investors simply shrugged and said, “I don’t have time to wait around for these guys to get their act together.”

That’s where we swoop in. The Crow’s Nest is patient when it comes to positions. I’m willing to wait quite some time when it means doubling my money.

Here’s an excerpt from the Forbes interview with Marketocracy’s Justin Uyehara, who has a whopping 17% of his portfolio now dedicated to Solazyme. And he knows what he’s doing: Since 2003, he’s averaged 30.9% — more than triple the return of the S&P 500’s annual return of 9.7%. Not too shabby...

So why does he like the stock so much?

“I like companies that can turn commodities into a high value product. The commodities that Solazyme is working with are sugar and algae. They have developed a way to grow microalgae by using sugar as the main nutrient, and then they ferment the plant in dark enclosed steel containers. The company researched thousands of algae strains, and found a select few that can be used to manufacture oils, lubricants, flour, and proteins.”

Now, it’s one thing to have a great product. But who is the company going to sell these amazing products to?

“They have a contract with both the Department of Defense and the Department of Energy. Consider the U.S. Navy for example. The DOD spends over $4 billion per year on petroleum based fuels. Meanwhile, renewable fuel only makes up 1% of their total fuel consumption. If Solazyme can create a cost effective method of producing marine fuel, they have a huge potential market awaiting them that dwarfs their current $50 million per year revenues. They are already producing the renewable fuel used in the 50/50 jet fuel that powers our F/A 18 fighter jets, and that part of the market is just now taking off.”

And that doesn’t include their deals with Dow Chemical (NYSE: DOW) and Bunge (NYSE: BG).

Outside of the industrial oils and drilling lubricants, Solazyme also boasts a burgeoning cosmetics line, which has secured deals with the Sephora retail chain, QVC.

Perhaps its most exciting new venture is its new health food patent. Its health sciences division has just announced U.S. Patent #8,747,834, which describes the use of algal biomass as a treatment for impaired glucose metabolism. The company claims it will be able to do more than just reduce blood sugar levels...

Its current algae-derived foods improve the nutritional qualities of food and reduce the cost of producing them. And before you cringe at the idea of eating algae... just have a look at what a Time Magazine food writer said in his review of The Best Pond-Scum Cookie You’ll Ever Taste:

The vanilla drink is the color of new butter and tastes almost as good — creamy and sweet, like a liquid pudding. Next I try a pair of golden cookies, lightly touched with sugar — they’re soft, chewy and filling. Last is a mustard yellow dipping sauce, tangy, that coats a handful of pretzels with a pleasant honeyed zing. Every reporting trip should be this tasty.
A pretty strong review indeed for a health food. How much healthier are they, exactly?

The vanilla drink has 20% fewer calories and 75% less saturated fat than regular milk, while the dipping sauce has 74% fewer calories and 85% less overall fat than your average honey mustard dip. These are diet foods that taste sinfully good.

These guys have their algae-covered fingers in a lot of profitable pots. Time will tell which of their endeavors will really break through, but each of them has blue-sky potential.

I agree with all of Uyehara's sentiments. That's what I told you when I recommended the stock in April's issue.

You can read the entire interview here.

We’re still buying under $15 and looking to at least double our gains from today’s $9 price point.

Tying Down the Mast

So, here’s what we know right now:

- The Fed will start winding down QE in October. To date, it has printed over $4 trillion. After the taper, it will still be purchasing $75 billion a month, which should keep the ship afloat a wee bit longer.

- Even the slight taper should drive interest rates above their historic lows. When interest rates rise, we should finally start seeing those cracks in the hull. According to Andrew Huszar — an architect of the Fed’s quantitative easing program — “as interest rates rise, the funding costs on those deposits will rise in connection. There could come a time when interest rates get to 4.45% where the Fed begins generating huge losses on its portfolio.”

- Since this would be the first time the Fed has ever actually generated losses, it will open the Fed up to massive congressional criticism and may lead to the Fed losing its independence in the political system. While it would be a welcome change in the long run, it would have profound implications for
confidence in the market.

So when Yellen eventually does pull the plug and interest rates return to reality, what will happen? According to Huszar, we’ll see a flood out of equities...

“We heard these very same words being uttered in 2007, 2008... I don’t know what the next crisis will look like, but I believe that we do have this potential for pretty significant selloffs in the financial markets. Again, people need to be very careful about their investment strategies and really hold things they have confidence in terms of longer term.”

If we take a look at what happened after the last crash, we can glean some lessons about crash investing.

**Investing After a Crash**

There are two very simple things you can do to prepare for a market crash — and profit from it after it hits:

1. Exit positions for gains
2. Make a shopping list of discount stocks to buy immediately after the crash

We’ll be selling off a couple of winners in the next month or two. I don’t want to be too hasty yet, but if you have positions that have run up to levels at which you are comfortable taking your gains, by all means, take the money and run. You should have some capital at your disposal for buying discounted stocks after the correction.

You should also think about hedging with some assets that typically go gangbusters when shit hits the fan.

- **Volatility Index (CBOE: VIX)**
  
  The volatility index — or Fear Index — has taken a hit, since stocks have slumbered since Yellen’s speech. It’s actually at a two-year low — and it doesn’t take much to set off the VIX. In fact, my colleague Nick Hodge played it in July and reaped almost 50% in two weeks when the Israeli-Palestinian situation flared up and a Malaysian flight over Ukraine was shot out of the sky. Those weren’t even direct market-related phenomena. Imagine what will happen when interest rates go up and the market tanks...

- **Silver**
  
  There is no better time to unleash Silver’s Doubling Effect, a.k.a. ProShares Ultra Silver (NYSE: AGQ), than right before a correction like this. While it’s always great to hold physical silver, a market crash will send precious metals soaring, and you’ll double your gains with this double-leveraged ETF. AGQ returns twice (200%) the daily performance of silver bullion, as measured by the U.S. dollar fixing price for delivery in London.

Ok, so you’ve prepared for the crash. But what do you do afterwards?

You go on a shopping spree...

I am a huge fan of the buy low, sell high philosophy — like anyone else with a functioning brain. You simply cannot get better long-term stocks at fire-sale prices as you can right after a market meltdown.
Here are a few winners from the last crash:

- MasterCard (NYSE: MA) is up 297%
- General Electric (NYSE: GE) is up 270%
- McDonald’s (NYSE: MCD) is up 80%

These stocks are no-brainers when selling at a discount.

Pick a few of your favorite blue chips and sink some money into them, especially if they have good dividends. They’ll pay off big in the long term with minimal risk. I’ll bring you a slew of stocks next month that are sure to do well long term.

This is how investing legends like Warren Buffett and John Templeton made absolute fortunes. They bought the fear.

First, a quick history lesson...

On Oct. 19, 1987, the stock market suffered what we now call Black Monday. The Dow Jones Industrial Average lost 508 points — almost a quarter of its value — in one day. That is the worst single-session percentage drop in history.

Most people were running for the hills. Some analysts thought this would be the death of the stock market for years to come. Long story short, ordinary investors were selling off their portfolios at massive losses.

But one visionary knew the Baron Rothschild quote, “Buy when there is blood in the streets... even if it’s your own.”

John Templeton — billionaire founder of the famous Templeton Funds — played it cool. He didn’t sell... he bought like crazy. Here’s what happened that day...

You see, Templeton was a man of habit, and on Black Monday, he left his office around noon for his daily practice of exercise, lunch, and studying. When he returned to the office, there was a full-blown panic going on.

When told of the massive market crash, Templeton quietly pondered the moment and, according to one colleague,
said, “The bad news is we’re in a bear market. The good news is it’s almost over. Let’s find stocks to buy.”

It was that simple. That’s because he stuck to his 16 rules of investing. Rule number 10 bears repeating here:

**RULE 10: Don’t Panic**

Sometimes you won’t have sold when everyone else is buying, and you’ll be caught in a market crash such as we had in 1987. There you are, facing a 15% loss in a single day. Maybe more.

Don’t rush to sell the next day. The time to sell is before the crash, not after. Instead, study your portfolio. If you didn’t own these stocks now, would you buy them after the market crash? Chances are you would. So the only reason to sell them now is to buy other, more attractive stocks. If you can’t find more attractive stocks, hold on to what you have.

Templeton believed in buying solid stocks at the time of “maximum pessimism.” That way, you can lock in discounted stocks you would have liked to buy anyway but thought they were too expensive.

It sounds incredibly simple... but it’s hard to swallow when all you see is panic and chaos. You just have to stick to your guns and think long term. It also helps to avoid the screaming headlines in the *Wall Street Journal* and the exploding heads on cable television.

Warren Buffett is no stranger to crash investing, either...

After the 1987 crash, instead of liquidating his positions at a huge loss, Buffett did what he does best: value investing.

He started loading up on Coca-Cola shares. Here’s a recap from a Buffett biography:

In 1988, he started buying up Coca-Cola stock like an addict. His old neighbor, now the President of Coca-Cola, noticed someone was loading up on shares and became concerned. After researching the transactions, he noticed the trades were being placed from the Midwest. He immediately thought of Buffett, whom he called. Warren confessed to being the culprit and requested they don’t speak of it until he was legally required to disclose his holdings at the 5% threshold. Within a few months, Berkshire owned 7% of the company, or $1.02 billion dollars worth of the stock. **Within three years, Buffett’s Coca-Cola stock would be worth more than the entire value of Berkshire when he made the investment.**

You don’t make returns like that by buying at the top. Crisis investing is one true mark of a seasoned, successful investor. And we may be looking at a generational opportunity here. Don’t be a victim. Don’t panic... profit.

Say you were an ordinary investor on Black Monday. If you bought into the broad market immediately following the bloodbath, a mere five years later, you would have reaped an annual gain of 14.5%. Compare that to the average five-year gain of 9.7% between 1926 and 1987.

If you held for 10 years, that same portfolio would have jumped to 17.2% compared to the stagnant growth of 9.9% in the decades between 1926 and 1987.

You could set yourself up for life with a few safe and easy moves. I’m not talking wild speculation here: After 1987, large-cap stock prices rose 12% in 1988 and about 27% in 1989.
I’ll bring you my full crash investing portfolio next month in preparation.

To finish off this month, I’ll introduce you to our new portfolio section: Delta-9 stocks.

Plundering

Delta-9 Stocks

Last month, I told you we were going to start adding some medical marijuana positions to the mix. Medical marijuana is a natural substance that comes from the cannabis plant, which has a medicinal history that goes back thousands of years. In fact, archaeologists have found evidence of medicinal cannabis use in China dating all the way back to the Neolithic period, around 4000 B.C.

It was only modern scare tactics and government overreach that banned it in the first place. Thankfully, those prejudices are going away.

We’re calling these stocks Delta-9 stocks after active ingredient THC, which is short for \textit{trans-\(\Delta^9\)-tetrahydrocannabinol (\(6aR,10aR\)-\(\Delta^9\)-tetrahydrocannabinol). Delta-9 has a much nicer ring to it...}

You’ll find all these positions in the Delta-9 section of the portfolio.

We prefer medical stocks to the recreational ones for one major reason: These companies actually make money right now. Some of the new marijuana stocks you’ve probably seen making the rounds have not only made no money but are also oftentimes just unprofitable companies that have added “marijuana” to their titles to cash in on the cannabis craze.

Case in point: the new “marijuana” company Integrated Cannabis Solutions Inc. It has just registered to change its name from — get this — Integrated Parking Solutions. Once it did this, it began paid promotion of the stock on the OTC exchanges.

Here’s what happened:

That’s a quick 639%.

I’m willing to bet a king’s ransom that Integrated Parking Solutions would not have been able to pull off a massive gain like that if it just focused on parking. Just look at its Q1 filings:

- Cash: $0
- Current assets: $0
- Total liabilities: $33,989
- Revenues: $0
Net loss: $300

This is what you want to avoid.

Integrated Cannabis Solutions Inc. basically slapped a green coat of paint over its existing business. This isn’t always a bad thing, but I am far more interested in companies that have been cultivating (pun intended) a marijuana business for a while, not some Johnny-come-lately trying to shift its business on the fly.

So we’re going to stick to the tried and true companies that are actively profiting from long-term marijuana trends.

As far as medical marijuana is concerned, there is a massive built-in audience of patients that can benefit with such far-reaching medical conditions like:

- Cancer
- Parkinson’s
- Glaucoma
- Epilepsy
- Chronic pain

Those are big markets. And the list goes on and on. So as more and more states in the U.S. open their doors to this groundbreaking treatment, more companies will crop up to meet the huge demand. Just look at these projections from the Marijuana Business Factbook:

Last month, I introduced you to GW Pharmaceuticals. I think that company has promise, but I’m going to add two companies to The Crow’s Nest’s portfolio that I believe are better — and safer — options to cash in on this trend over the long term. The first is AbbVie.
AbbVie (NYSE: ABBV)

AbbVie is an Abbott Labs spin-off.

The “Delta-9” opportunity it offers is Marinol — the very first synthetic THC cannabinoid to be developed — which is already FDA approved. It treats nausea in chemo patients and is also given to AIDS patients to spur appetite.

While marijuana is still classified as a Schedule I drug by the Department of Justice, Marinol squeaks by as a Schedule III drug — which means the FDA values its medical benefits and rates its risk for abuse to be very low.

And Marinol is but one of many promising drugs from which AbbVie will continue to profit. The elephant in the room is Humira:

- Humira still reigns as the world’s top-selling drug. During the last quarter, it notched an impressive 26% year-over-year sales gain. Only Duodopa increased by a greater percentage, but it only brought in $56 million compared to Humira’s $3.28 billion. Humira generated 67% of AbbVie’s total revenue, more than two and a half times that of the company’s next 10 highest-selling drugs... combined.

- There’s no reason to think Humira is about to hit a brick wall. The drug should continue to power AbbVie’s revenue to higher levels. That being said, there are other positives that could impact the stock in both the near term and long term.

Now, Humira’s patent exclusivity will expire in 2016, and a slew of generic versions are in the works. But until then, AbbVie will continue to reap the benefits from the world’s top-selling drug.

There are a few other reasons AbbVie is looking like a solid buy right now...

**Tax Inversion**

So by now you’ve probably heard of the controversy of “tax inversions,” where companies move their headquarters to more tax-friendly environments. A large U.S. company will acquire another company to set up its headquarters in an overseas country. Burger King (NYSE: BKW) just did this with its acquisition of Tim Hortons Inc. (NYSE: THI) (TSX: THI).

Closer to home, our IRM(72) position Abbott Labs (NYSE: ABT) sold off some of its generic drug division to Mylan Inc. for around $5.3 billion in stock. Because Mylan is headquartered in the Netherlands, the new company will have a much lower tax rate, going from 25% to 21%. It should drop even further in years to come.

Pfizer is in talks to do the same thing with its takeover of Britain’s AstraZeneca.

And now AbbVie, which was spun off of Abbott last year, has done the same with its recent acquisition of Shire — a major rival with a headquarters in the more tax-friendly UK. If everything goes according to plan and AbbVie can use Shire’s headquarters, it could to slash its corporate tax rate from 22% to 13%.
That is huge.

Even if it is not able to cash in on all of the tax benefits and it keeps its U.S. headquarters, Barclays estimates that it could still be looking at $500 million in annual tax savings.

Here’s a roundup of recent analysis and price targets:

While Barclays has been downgrading its analysis on pharmaceutical stocks on the whole, it upped its price target for AbbVie to $69.00 from $44.

UBS upgraded AbbVie (NYSE: ABBV) to “buy” with a price target of $67 from $57. Here’s its fourfold investment thesis:

1. We like the Shire deal. It’s accretive, diversifies earnings away from Humira, adds long duration assets, and positions the co with a lower, more efficient tax structure.
2. Earnings expectations for the next few years are too low based on strong current Humira trend, the Shire deal, and the HCV franchise.
3. The pipeline (excl HCV) is interesting (eg, ABT199 for cancer, Elagolix for WH) but gets minimal attention and has very low expectations and thus should be a source of upside.
4. We have factored into the model an aggressive decay curve for Humira from biosimilar competition, peak sales in year 3 for HCV from additional branded competition and price erosion, and generic competition for Lialda in late 2015. We believe the stock more than adequately discounts these three important risk factors.

We’ve added AbbVie (NYSE: ABBV) to the portfolio at $54.85. We’re buying up to $60 with an initial price target of $80.

Insys Therapeutics, Inc. (NASDAQ: INSY)

This next company is developing multiple marijuana-based drugs. In fact, it has been for years, and it is much farther through the tedious FDA process than some of its peers.

The company already has licenses in place to manufacture and distribute cannabis-derived products in the U.S.A. as well, which will be a hurdle for any newcomers.

Insys Therapeutics, Inc. (NASDAQ: INSY) is an Arizona-based company that has been publicly traded for a little over 10 years.

For a vast majority of that time, the stock didn’t do much. Lately, however, it has been heating up, and it looks like it is about to get a lot more attention from investors.

Insys has been quietly working with Cannabidiol (“CBD”) compounds for years. These compounds produce no high.

Unlike Insys’ competitors — save AbbVie — the Cannabidiol compounds it is using are synthetic, avoiding
potential issues with growing marijuana plants.

Insys recently received an FDA orphan drug designation on July 1, 2014 for use of pharmaceutical cannabidiols for a rare form of childhood epilepsy.

More recently, it received the same designation as a potential treatment for glioblastoma multiforme, an aggressive, often incurable, and very common form of brain cancer.

An orphan drug designation paves the way for seven years of exclusive sales rights, tax breaks and incentives, and other special benefits.

Insys is also investigating uses for adult epilepsy, cancer-related pain, and addiction to heroin and other opiates.

The company already has a marijuana-based drug on the market: Dronabinol SG.

It is a generic version of AbbVie’s Marinol, and it is used in second-line treatment for chemotherapy-induced nausea and vomiting and anorexia associated with weight loss in patients with AIDS or other diseases.

Sales are growing in spite of a lack of promotion, but the real potential of this proprietary drug is already through phase III trials.

You see, Marinol and the various generic versions of it just really aren’t good at what they do. Suffering through vomiting and nausea for any amount of time is bad. Trying not to regurgitate a pill as you wait an hour for it to kick in is far worse.

Plus, the actual amount of the drug patients absorb is highly variable, and there isn’t much flexibility to fine-tune the prescription.

Dronabinol Oral Solution is how Insys plans to overcome all three of these limitations and capture a much greater share of the market.

**Dronabinol Oral Solution Key Attributes**

<table>
<thead>
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<th>Clinical Data from 52-Patient Crossover Bioavailability and PK Study</th>
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<tr>
<td><strong>Rapid Absorption</strong></td>
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<td>Subjects achieving detectable plasma levels at 15 minutes</td>
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<tr>
<td>Oral Solution: 100%</td>
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<td>Marinol: &lt;25%</td>
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<td><strong>Less Dose-to-Dose Variability</strong></td>
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<tr>
<td>Oral Solution reduced intra-patient variability by more than 60% (as measured by AUC)</td>
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<tr>
<td><strong>Enables Flexibility in Dosing</strong></td>
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<td>Current formulations limited to 2.5mg, 5.0mg &amp; 10.0mg capsules</td>
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**Versatile Liquid Formulation**
The oral solution has already passed through phase III clinical trials, and a NDA (New Drug Application) has been filed.

Since the FDA has already approved the tablet form, I see no reason why this time should be any different. The only significant difference appears to be the method of delivery.

### Pulling in Revenue

Unlike many other pharmaceutical companies of similar size, Insys has a distinct advantage: it is already making money from a unique drug.

Subsys, a fentanyl sublingual spray, is a one-of-a-kind breakthrough pain medication. Breakthrough pain refers to intense pain that “breaks through” the medicine patients are already taking.

The episodes can last for half an hour or several hours, and it is often dangerous to increase doses of longer-lasting drugs that take far longer to kick in.

Subsys solves this problem by delivering drug particles via a fine mist across a broad surface under the tongue. This allows a very rapid dose of pain medication, with effects felt in as little as five minutes.

Subsys has been on the market since March 2012. Since then, it has captured 35.8% of the market share for similar products and pulled in $422 million in sales last year.

The unique delivery method has two pending patents for Subsys and an exclusive license agreement with Aptar for its proprietary sublingual spray device.

This paves the way for a whole host of other applications when a rapid and exact dose of medicine would be advantageous:

### R & D Pipeline: Sublingual Spray Technology

<table>
<thead>
<tr>
<th>Sublingual Spray Platform</th>
<th>Preclinical</th>
<th>Phase 1</th>
<th>Phase 2</th>
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<td>Diclofenac (NSAID)</td>
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<td>Ketorolac (NSAID)</td>
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**Subsys Label Expansion Opportunities**

- Dyspnea (incidental shortness of breath) (IND filed)
- Pre-procedural use in a clinical setting
- ER situations: acute pain
- ER situations: oncology
- To manage pain in burn patients
- Pediatric use

[Image of Subsys packaging and spray device]
The Company Details

**Insys Therapeutics, Inc. (NASDAQ: INSY)** has 34.51 million shares outstanding and a market cap around $1.2 billion.

Shares are trading around $34.00, creating a price-to-earnings ratio just above 24.5.

The company has $46.14 million in cash and no debt. Revenue grew from $18.82 million to $55.70 million between Q2 2013 and Q2 2014.

Share prices reached a peak in March at about $55.00, followed by a correction in May that brought the company shares down to $22.60.

This correction roughly corresponded with a correction across the board for biotech and pharmaceutical companies.

Since the correction, share prices have stabilized and drifted upwards. Insiders have been buying to take advantage of the lower cost of shares, with 16,500 shares purchased in May.

Needless to say, it is always a good sign when company executives double down instead of cashing out.

With share prices stable and well below the 52-week high, we have a window of opportunity to enter a position with great upward potential.

Sales and revenue growth are expected to be strong, profit margins will continue to increase with scale, and any news about the new drugs moving closer to sales will attract new investors.

We added **Insys Therapeutics Inc. (NASDAQ: INSY)** to our portfolio at $33.36 and are buying shares under $45.00.

That’s it for this month. Keep your eyes on your emails, because I’ll be sending out sell alerts when the time is right so that we have some excess cash to deploy the very day the correction hits.

Until then, I'll leave you with a quote from John F. Kennedy:

“The Chinese use two brush strokes to write the word ‘crisis.’ One brush stroke stands for danger; the other for opportunity. In a crisis, be aware of the danger — but recognize the opportunity.”

Godspeed,

Jimmy Mengel
Investment Director, *The Crow’s Nest*