

Investment trip: Why psychedelic stocks could take off in 2022

BY EMILY BARON CADLOFF

There are a few things to know about investing in the trending market for psychedelics. First, it's not just one drug, or strain of drug, like the cannabis market. The field includes dozens of hallucinogenic substances, most of which are still illegal. Second, investors aren't banking on widespread acid-tripping for recreational use; they're hoping for a revolution in mental health treatment. And lastly – this business is going to be huge. At least according to some early investors.

“The growth potential is immense. But the social-impact potential, that's phenomenal,” says Sa'ad Shah, co-founder and managing partner of Noetic Fund, which recently opened their second round of funding, looking to raise \$200 million. The Toronto-based venture capital fund invests specifically in new therapeutic treatments, and psychedelics are a big part of their focus. Shah says Noetic has already seen the market grow exponentially in the last year and predicts a market cap into the billions soon. “If you miss a week, you've missed a year,” Shah says.

While psychedelics might seem like an under-the-radar industry now, it won't stay that way for long. Peter Thiel, co-founder of PayPal, backed start-up Atai Life Sciences, which boasted a valuation of US\$2.3 billion. Champion boxer Mike Tyson has put his cash behind Wesana Health, which had a market cap of more than \$40 million in December. Celebrity investor Kevin O'Leary is also talking up psychedelics, saying in May that the potential of psychedelics “far exceeds the potential of cannabis.”

With one in five North Americans experiencing a mental illness in any given year, a growing crop of investors, companies and researchers are betting on the medicinal future of psychedelics. Currently, there are about 50 publicly traded psychedelic companies globally, most funding, supporting or completing their own clinical research. Some focus on psilocybin (you might know them as magic mushrooms), and others are exploring chemical derivatives such as MDMA, ketamine and LSD. Leading medical research facilities like Johns Hopkins University, Harvard University and Massachusetts General Hospital are dedicating new centres and resources to study the use of psychedelics in treatment. One major Canadian centre, at Toronto's University Health Network, received a \$5-million donation from entrepreneur Sanjay Singhal in October.

Though psychedelics research dates back to the 1950s and '60s, the U.S. Controlled Substances Act put the kibosh on it, when psychedelics got lumped in with other drugs and possession became a federal crime. One of the longest-running research bodies in the market today is the non-profit Multidisciplinary Association for Psychedelic Studies (MAPS). For more than 30 years, MAPS has led the industry when it comes to studying the use of psychedelics in mental health treatments. It's recently had a boost from the for-profit sector. In September, Wesana Health

committed \$1.5 million to MAPS to continue research into the effects of MDMA on traumatic brain injuries.

For investor Raad Seraj, having an institution like MAPS on the scene helps create a different way of looking at mental health. “They are creating an alternative pathway from a purely for-profit, Big Pharma model,” he says. As a venture partner at The Conscious Fund, Seraj has helped create new ways for retail investors to invest directly in therapeutic psychedelic start-ups. Investors like Seraj and Shah say that getting into the psychedelics market is about changing not just how these substances are viewed culturally, but how the whole field of mental health works.

In a standard therapy session, you might speak with a therapist about a specific issue, while they help you unpack your feelings over months or years. That therapist may prescribe medication to alleviate symptoms of depression or anxiety. Now imagine that same therapy session but with a low dose of psychedelics. Rather than take a pill daily, like a standard antidepressant, a patient would take a clinical dose of the drug in the presence of their therapist and work through their “trip” during the session.

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Ronan Levy, executive chairman at Field Trip Health

Research suggests that for someone suffering from post-traumatic stress disorder, for instance, MDMA coupled with therapy can reduce feelings of fear and defensiveness and heighten feelings of trust. That’s why investors like Seraj are not just seeking out these opportunities but trying to bring others along with them. Seraj hosts regular sessions to introduce potential investors to the world of psychedelics. His goal with The Conscious Fund is to bring the investment opportunities to what he calls a community of “micro-angels” – those who don’t have a ready \$125,000, the usual minimum for venture capital funds. “I think start-ups and early-stage companies around the world are recognized as the dominant generators of wealth. And archaic rules [requiring investor accreditation] generally have kept [regular] folks out of this market.”

But can the burgeoning sector avoid the cannabis problem, where legal businesses and grow operations are overwhelmingly owned by white people, while across North America people of colour are still more likely to face charges or jail time over drug possession? For Seraj, any investor has to support general decriminalization. “It doesn’t cost the [legal] market anything. In fact, the more you destigmatize it, the better it becomes.” He believes that more mainstream psychedelic use could help lower rising rates of ecological anxiety, distress and depression over climate change. “There’s a big connection between climate change, mental health and consciousness,” he says. “[Psychedelics are] how you create a resilient, adaptable human culture that can actually face what’s coming.”

For Ronan Levy, executive chairman at Field Trip Health, which offers ketamine-assisted psychotherapy in a dozen North American cities, the more these therapies become accessible for people, the more users will become aware of the historic inequalities in the field, and the more ideas on how to address them will emerge. “One of the social side effects of psychedelic experiences seems to be increased empathy and regard for other people. So it’s kind of a solution that starts to feed itself.”

Of course, there’s a long way to go before these therapies are available to everyone. For one, many of the substances, including MDMA and psilocybin, will likely not get the legal green light for another few years, though some jurisdictions are leading the way. Detroit decriminalized psychedelics in November 2021, meaning that possessing psilocybin is still illegal, but police won’t prioritize those arrests. The California state senate passed a bill last summer to legalize psychedelics, though the bill still has to pass through other layers of government before it becomes law.

And the therapies that are available now can be prohibitively expensive for many. A full round of treatment at Field Trip, for instance, is hundreds of dollars per session. Levy says that’s an issue that Field Trip is still grappling with, and it comes down to access. “Insurance is a piece of it, and innovating around group therapies to lower costs,” he explains. “I believe that when you look at the numbers, not just from a humanitarian perspective but from an economics perspective, more organizations will quickly come to the conclusion that covering access to psychedelic-assisted therapies is a good investment.”

Levy anticipates that once more physicians and counsellors become comfortable using these therapies in their treatment, the benefit to the healthcare system could be huge. “I think the U.S. alone spends close to \$250 billion on treating depression and anxiety with the cost of medicine and the ancillary services, so you can appreciate just how large of an industry this can be. [It can become] the primary form of mental-health care.”

Of course, that boom that Levy predicts is dependent on a number of factors. Clinical trials have to keep getting positive results and legislators have to take big steps forward. With that in mind, Janet Gray, a certified financial planner with Money Coaches Canada, suggests a bit of caution for the curious investor. “We’ve been through this before, with cannabis five years ago and Bitcoin a few years ago. There’s always something new to excite the market to this degree.” She says she’d invest 5% of her portfolio into psychedelics at this point, possibly up to 10% for a long-term investment. Even if there’s a case of investment FOMO, Gray advises people to do more research. “What are the medical people saying? What are the legislators and policy-makers saying?” From there, Gray says, you’re in a much better position to see how far down the rabbit hole you’d like to go.

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