

# Not Sure Which Pot Stock to Buy? This New Marijuana ETF Might Be Right for You

## Description

On May 8, I wrote an article, [“This Is the #1 Reason Why Marijuana Stocks Can Still Go Higher”](#), which highlighted just how lucrative the opportunity is for investors who are willing to go the extra mile to uncover the companies who will turn out to be the eventual “winners” of the emerging marijuana industry.

While that opportunity is still very real, we all lead busy lives, and there is only so much time in the day to spend researching the seemingly endless list of upstart marijuana companies entering the market on what seems like a weekly basis.

Or it may be that you are relatively new to investing and don’t quite have the confidence to go out there and be a “stock picker.”

If either of those sound like you, there may be a solution in sight.

Recently, Horizons Exchange Traded Funds released a new ETF product focused exclusively on the marijuana industry.

The new ETF is called the **HORIZONS MARIJUANA LIFE SCIENCES IDX ETF** ([TSX:HMMJ](#)) and trades on the Toronto Stock Exchange.

The Horizons Marijuana Life Sciences ETF is designed and managed to provide exposure to the performance of a basket of North American publicly listed life sciences companies with significant business activities in the marijuana industry.

## Why this ETF might be right for you

There are several benefits to choosing ETFs over stocks, but chief among them is the diversification effect.

It can be costly and time consuming for investors to individually compile a diversified portfolio of 20 or even 30 stocks, yet with an ETF, we can make one smart purchase and acquire a large diversified basket of holdings.

In the case of the Horizons Marijuana Life Sciences ETF, the portfolio contains 20 individual companies.

A little over 60% of the holdings are based in Canada, which makes sense given that Canada is progressing with the legalization of recreational marijuana ahead of most countries.

U.S. holdings and companies originating from Great Britain round out the mix, making up 29% and 10% of the portfolio, respectively.

Another of the key advantages to investing in ETFs is that they are actively run by a team of portfolio managers. These are individuals with extensive training in capital markets and security selection.

If you believe in the benefits of specialized labour, you'll probably appreciate this quality of ETFs.

### **Drawbacks of investing in ETFs**

Active management doesn't come without a cost. In the case of the Horizons Marijuana Life Sciences ETF, investors are charged a 0.75% fee on assets under management. This fee is charged on top of any commissions you will have to pay to buy and sell the security, along with any fees you are already paying your investment advisor, if you have one.

Just as there is a cost-benefit to paying for active management, there is a lesser appreciated drawback of diversifying with ETFs.

While diversifying will help you to limit your losses if one of your holdings experiences a catastrophic negative event like, say, a fire at one of its plants, diversifying by its very nature limits your upside if you happen to pick a winner.

In the case of the Horizons Marijuana Life Sciences ETF, **GW Pharmaceuticals PLC- ADR** ([NASDAQ:GWPH](#)) makes up 9.83% of the overall portfolio.

While this doesn't sound like much, GWPH currently has a market capitalization of \$2.5 billion, which is twice the size of the next largest holding, **Canopy Growth Corp**, (TSE:WEED).

This just means that the returns of the larger, more mature GWPH may act as a bit of a drag on the overall returns of the ETF, especially when you consider that smaller Canadian players like **Aphria Inc.** (TSX:APH) or even **Aurora Cannabis Inc.** (TSXV:ACB) should have more room to grow as the market develops.

### **Should you buy it?**

As with any investment, there are risks and rewards, and investors should take time to conduct a basic cost-benefit analysis before going ahead with any investing decision.

Investing in the Horizons Marijuana Life Sciences ETF will help to take out a lot of guesswork out of the equation, leaving that to the experts.

And certainly, if and when the marijuana industry reaches the next level of commercialization, investors who were early to buy Horizons Marijuana Life Sciences ETF should have nothing to worry about.

Stay Foolish.

### **CATEGORY**

1. Investing

## TICKERS GLOBAL

1. TSX:ACB (Aurora Cannabis)
2. TSX:HMMJ (Horizons Marijuana Life Sciences Index ETF)
3. TSX:WEED (Canopy Growth)

## PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

## Category

1. Investing

### Date

2025/07/27

### Date Created

2017/07/05

### Author

jphillips

default watermark

default watermark