



Cannabis Investors: These 2 Financials Stocks Provide Sector Exposure With Less Risk

Description

Finding alternative ways to play any sector is a fun exercise for investors. I recently suggested investors take a look at two companies that are poised to take advantage of the [e-commerce revolution](#), companies that are not directly involved in these industries but stand to benefit perhaps more than active market participants due to the way changing trends are likely to impact margins and profitability long term for support-related business.

In the Canadian cannabis sector, the rise of initial public offerings (IPOs) and secondary stock issuances has required underwriters to step up to the plate and provide these services. Two small-cap Canadian companies that have led the vast majority of stock issuances for Canadian marijuana producers in recent years have been **Canaccord Genuity Group Inc.** ([TSX:CF](#)) and **GMP Capital Inc.** ([TSX:GMP](#)).

Both Canaccord and GMP are on an amazing run following the rise in valuations linked to the cannabis industry. Over the past three months, shares of both firms are up more than 50% due in part to the fact that these companies stand to directly benefit from the rising price of cannabis producers due to the over-allotment deals and warrants provided to these underwriters in lieu of cash for services.

The acceptance of warrants as partial payment by smaller underwriters has resulted in a huge win fall of late; one of the stock issuance underwritten by Canaccord of **Aurora Cannabis Inc.** ([TSX:ACB](#)) provided Canaccord and the other underwriters involved in the deal with warrants to buy the company's stock at \$3 per share for three years. Aurora's stock has traded higher than \$15 per share — a potential profit of more than 500% if Canaccord had sold its warrants at Aurora's peak.

With larger Canadian financial institution **Bank of Montreal** ([TSX:BMO](#))([NYSE:BMO](#)) receiving a significant amount of attention relating to the bank's willingness to [underwrite a stock issuance](#) for one of Canada's largest cannabis producers, **Canopy Growth Corp.** ([TSX:WEED](#)), earlier this month, expectations that the large Canadian banks will continue to engage in underwriting activities may take some of the glamour away from companies like GMP or Canaccord.

That being said, the number of issuance for smaller cannabis producers, or those with interests in the U.S. or other flags that would not allow Canadian federal financial institutions to be involved with such issuances, continues to be a tailwind for smaller underwriters.

Bottom line

Both Canaccord and GMP are interesting speculative plays for investors betting the cannabis run will continue. The best-case scenario for these underwriters is that the stock of marijuana producers continue to rise, and these underwriters will be able to cash in via non-cash incentives relating to their underwriting activities. Worst-case scenario, the bump in revenue resulting from these additional issuances will continue to flow into these company's coffers.

Stay Foolish, my friends.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:BMO (Bank of Montreal)
2. TSX:ACB (Aurora Cannabis)
3. TSX:BMO (Bank Of Montreal)
4. TSX:CF (Canaccord Genuity Group Inc.)
5. TSX:WEED (Canopy Growth)

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