



Are Marijuana Mutual Funds the Future of Canadian Pot Stocks?

Description

Investors still have an opportunity to get in with one of the potential big players of the coming marijuana wave that some analysts predict could surge for the next 10-15 years. If the predicted swing from alcohol towards pot-infused beverages does indeed occur, a position in **Canopy Growth** ([TSX:WEED](#)) (NYSE:CGC) may well set you in good stead.

With a whopping market cap of CA\$15 billion, it's certainly well-endowed. Unfortunately, it's far from being a decently valued stock at the moment. A cracking summer has led to [Canopy Growth](#) become overvalued by about 15 times its future cash flow value. While most of its multiples are still unusable, a P/B ratio of 11.4 times book highlights this overvaluation.

An 85.4% expected annual growth in earnings over the next 1-3 years is what most investors are here for you, besides the clear positive momentum. While there is no dividend on offer, a low debt level of 50.7% of net worth should please some risk-wary investors. But is it enough to satisfy the risk-averse investor?

Horizons Medical Marijuana Life Sciences Index ETF ([TSX:HMMJ](#))

One of the sturdier marijuana ETFs on the market, Horizons still looks good if you are looking to spread the risk of a legal pot investment. While the usual market fundamentals can't be relied upon here, the share price for this fund has risen sharply since the end of the summer.

To quote Horizons' investment objective, the ETF "seeks to replicate, to the extent possible, the performance of the **North American Marijuana Index** (the "Index"), net of expenses. The Index is designed 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."

Let's take a look at weightings of the current top holdings in that basket:

Aurora Cannabis: 15.71%

Canopy Growth: 12.51%

Aphria: 10.12%

GW Pharmaceuticals: 7.89%

Cronos Group: 7.13%

Scotts Miracle-Gro: 6.16%

Green Organic Dutchman Holdings: 4.77%

Hexo: 3.93%

Tilray: 3.68%

CannTrust Holdings: 3.26%

That's certainly not a bad blend of stocks, and may make for a lower-risk marijuana play suitable for more traditionalist "sin stocks" investors. Do shop around, though, as this is by no means the only legal recreational or medical marijuana mutual fund out there.

The fund is down 3.89% at the time of writing, however, suggesting that volatility even for a spread-risk ETF may be higher than some investors' appetite might allow. That said, marijuana stocks, either individuals or ETFs, are not for the faint of heart anyway. The future, however, may well belong to mutual funds such as Horizons, as they can alleviate some of the fear that traditionalist investors may feel about the new industry.

The bottom line

Those who bought the Horizons' ETF back when it debuted would have doubled their investment by now. At its current \$24.94 at the time of writing, it's not what you might call superb value, though there is the promise of some upside left. Is the window closing? It's hard to tell at this stage, though [bearishness](#) does seem to be creeping into the industry, with some now openly dubbing the phenomenon "pot-com," after the dot-com fiasco that many older investors may wish to forget.

CATEGORY

1. Investing
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TICKERS GLOBAL

1. NASDAQ:CGC (Canopy Growth)
2. TSX:HMMJ (Horizons Marijuana Life Sciences Index ETF)
3. TSX:WEED (Canopy Growth)

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