



Is the Marijuana Life Sciences ETF (TSX:HMMJ) a Safer Way to Invest in Cannabis?

Description

During the first seven months of 2019, cannabis investors have been on a bit of a roller coaster ride. With the exception of January, when many stocks did very well, we've witnessed a lot of bearish activity in the industry.

Even some of the top pot stocks in the industry haven't been spared from big corrections along the way.

Although **Canopy Growth Corp** ([TSX:WEED](#))(NYSE:CGC) is up around 18% from January through to the end of July, if we take out the first month of the year, then the stock is actually [down](#) by more than 30%.

Aurora Cannabis has fallen by 16% during the same period, while **Aphria** has crashed by 40%. These results are in stark contrast to the bullishness we saw a year ago leading up to the legalization of marijuana.

One way that investors can sometimes neutralize the volatility of investing in individual stocks is by holding more of them, or better yet, investing in an ETF. The **Horizons Marijuana Life Sciences Index ETF** ([TSX:HMMJ](#)) allows cannabis investors that opportunity.

If we look at how the ETF has done this year, its returns are a bit worse than how Canopy Growth has fared, up by a more modest 10%.

However, if we look at the five months since February 1, then HMMJ has done slightly better than the cannabis giant, dropping by around 23%. That's still a big drop in value, but not as bad as that of Canopy Growth and Aphria during that period. Aurora was the only one of the big three that fared better.

What does this tell us?

While HMMJ can avoid some of the bad performances of most marijuana stocks, because two of its

largest holdings are Aurora and Canopy Growth, it will be difficult to outperform those two stocks by much, if at all.

Given the risk involved with investing in cannabis, no ETF holding pot stocks is going to be completely safe in being able to avoid losses, but HMMJ certainly does offer investors some safety.

The disappointment comes when there have been gains in the industry. If we look at 12 months since August 2018, HMMJ's returns of 8% are positive, but also well short of Canopy Growth and Aurora's returns, which come in around 27%. It does, however, outperform Aphria, which is down 5% during that same period.

Bottom line

If you're looking at investing in one of the top two cannabis stocks, then you're not likely to see much benefit in investing in HMMJ. While you might avoid some of the losses, you could end up missing out on a lot more upside as well.

The main advantage of HMMJ is being able to invest in other pot stocks that make up a smaller mix of HMMJ's portfolio. Investing in the ETF would have saved you from the **CannTrust scandal**, giving you better returns than more volatile stocks like Aphria.

There is certainly some safety with investing in the ETF as opposed to some individual pot stocks, as it takes out a lot of the stock-specific risk involved, but investors just have to be willing to give up some of the potential upside that could be earned from holding individual stocks.

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