



Cannabis Investing: The Safest Way to Gain Exposure Ahead of October

Description

A few months ago, I [wrote about](#) the benefits of owning **Horizons Marijuana Life Sciences Index ETF (TSX:HMMJ)** but that I wouldn't recommend getting in at that price because the market seemed overvalued.

Since then, the ETF has come down roughly 30%, leading many investors to wonder if now is a good time to buy the fund.

The cannabis space has been tricky the last few months, as investors have waited patiently for companies to start becoming profitable now that cannabis is legalized. This has taken longer than expected, which has caused investors to take some of their money out of the industry, bringing down valuations in the process.

Now, as we approach the second phase of legalization, that intrigue is starting to creep back into the market. Stocks look more valuable again as they sit well off their highs, and investors are getting ready to pile back into the space.

For risk-adverse investors, your best choice might be to buy the ETF based on the industry index. There are a couple of things to keep in mind, though, if you decide to buy the HMMJ.

Pros

The fund owns all the large companies in the space, so it has exposure to a lot of different markets and strategies. It also owns ancillary businesses, such as **Scotts Miracle-Gro**.

It's clearly well diversified, meaning as an investor, you can insulate yourself from most of the company-specific risk. A clear example is the troubles at **CannTrust Holdings**. Had you owned CannTrust's stock since before its plummet, you would have lost at least 60%, but investors in the ETF have fared okay, losing less than 10% during that time frame.

Another example that speaks to the fund's stability (relative to the volatility of the individual stocks) is

the performance to the downside. If you had owned **Canopy Growth** since the same time I wrote the article on HMMJ in May till now, you would of lost over 50% vs. HMMJ's decline of just 30%.

Furthermore, you have an increased chance of making money because of its exposure to a number of stocks. Since the industry is so new, predicting winners and how things will play out is extremely difficult. By buying the fund, you won't miss out on any company developments you may have missed, if you chose to invest in just one or two companies.

Cons

Owning the fund only minimizes company-specific risk, like that which happened to Cantrust. You are still exposed to the entire industry and its valuations, so if you think that most of the industry is overvalued, but you have your eye on a specific stock you like, owning the fund may not be for you.

Another con is that you can't decide what exposure you have to what companies. Currently, the fund's top holdings are **Aurora Cannabis**, Canopy Growth, and **Cronos Group**. These three stocks make up almost 30% of the fund. The top 10 holdings make up a whopping 70% of the fund's portfolio. This can be a problem because you have to live with the stocks that are chosen for you.

Bottom line

Most investors who get into the cannabis space are doing so because they believe the industry will grow. If this is the case, it makes more sense to buy the fund and invest in what you actually believe in, rather than buying individual companies and hoping they are winners.

If you are looking for more reward, though, and are willing to take on more risk, you would be better off to pick a small-cap stock with huge growth potential.

It's important to know what you want and be decisive when it comes to investing in the cannabis space. Time is running out before the second phase of legalization, and this could be the last opportunity to make huge profits from the industry.

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Date

2025/07/19

Date Created

2019/08/28

Author

danieldacosta

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