



Should You Buy Horizons Marijuana Life Sciences Index ETF (TSX:HMMJ) or Individual Pot Stocks?

Description

Horizons Marijuana Life Sciences Index ETF ([TSX:HMMJ](#)) is the world's first marijuana ETF. It seeks to replicate the performance of the North American Marijuana Index, net of expenses. This index gives exposure to the performance of a basket of North American publicly listed life sciences companies with significant business activities in the marijuana industry.

Issuers have in general a market capitalization higher than \$75 million. The three largest holdings are **Aurora Cannabis**, **Canopy Growth**, and **Cronos Group**.

HMMJ's performance since its inception on April 5, 2017, is 21%. However, stocks in the cannabis sector have been sinking quite a lot recently. As a result, HMMJ has dropped 26% in the last three months only.

If you're looking to invest in the marijuana sector, you may wonder if you should invest in HMMJ or buy individual pot stocks. I'll tell you the reasons why you should buy HMMJ and also give you the downsides of buying the ETF versus owning individual stocks, so you can make an informed choice.

Why you should buy HMMJ

If you're not familiar with the marijuana industry or don't want to take big risks with your money, then I believe HMMJ is a good choice to make your entry in the pot sector.

While HMMJ is [very volatile](#) and carries a high risk, it is less risky than buying a stock, because the ETF is very diversified. Concentration risk is limited, as no issuer represents more than 10% of the index on each re-balance date.

A good example of this is **CannTrust** (TSX:TRST)(NYSE:CTST). This stock has dropped 84% from its peak, erasing all gains since its IPO two years ago. The pot company has lost nearly two-thirds of its value since early July when it revealed it had violated Canadian regulations by cultivating cannabis in unlicensed areas of its greenhouse in Pelham, Ontario, potentially putting its licence at risk.

People that invested in shares of CannTrust have thus lost a lot of money. However, this stock represents less than 0.5% of HMMJ, so its effect on the ETF's value is mitigated. So, by buying HMMJ instead of a single pot stock, you have less risk of losing all your money.

Further, it would require a big amount of money to buy the 10 largest marijuana stocks, but with the EFT, you get exposure to many issuers with little money invested.

In addition, HMMJ is very liquid, meaning you can buy or sell it easily. The average monthly daily trading volume is generally greater than 75,000 shares a day, with a trading value generally higher than \$250,000. Some small pot stocks have low liquidity and thus, you could have trouble trading them at the current market price.

What are the downsides?

The main downside of owning a marijuana ETF is, like with any other ETF, that you give up the [upside potential](#) of owning an individual stock. That is, while there are pot stocks that perform less well than HMMJ, such as CannTrust, there are other pot stocks that may perform better than the ETF.

For instance, **Fire & Flower Holdings**, a small pot company with a market cap of \$150 million, has soared 5% in the last three months, performing much better than HMMJ. But Fire & Flower is more volatile than HMMJ, meaning you could lose more money if things turn bad.

If you still want to buy single cannabis stocks to profit from a bigger upside potential, you should limit the money you invest in those. Don't put all your money into one pot stock, and don't forget to also diversify outside the marijuana sector to lower your risk.

CATEGORY

1. Cannabis Stocks
2. Investing

POST TAG

1. Cannabis
2. Editor's Choice

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1. TSX:HMMJ (Horizons Marijuana Life Sciences Index ETF)

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