



## Why Investing in Horizons Marijuana Life Sciences ETF (TSX:HMMJ) Seems the Best Bet for Cannabis Investors

### Description

The cannabis carnage has continued in October 2019. Several stocks have lost considerable market value and are trading at 52-week lows. Cannabis heavyweights such as **Aurora Cannabis**, **Canopy Growth**, **Hexo**, **Aphria**, and **Cronos** lost 19%, 13%, 46%, 4%, and 10%, respectively, last month.

These stocks account for 42% of the HMMJ ETF. This exposure has meant that HMMJ investors lost 12% in October 2019. Despite the pullback in recent months, investing in HMMJ seems like a no-brainer.

An ETF has exposure to several stocks, which significantly diversifies risks. Though it might limit the upside potential in case a stock crushes market returns, it provides enough buffer during a downturn.

Imagine investing in **CannTrust** during its IPO back in March 2018. Though the stock rose from \$8.3 in March last year to \$13.9 in October 2018, it has since lost 88% in market value to currently trade at \$1.6 per share. Comparatively, HMMJ is trading flat since it was publicly listed in April 2017.

### The cannabis growth story remains intact

It has been just over a year since marijuana was legalized for recreational use in Canada. It became the largest market in the world to offer recreational and medical cannabis products. According to Statistics Canada, cannabis sales surged to \$43 million within two weeks of legalization.

Between October 17 and December 31 last year, legal cannabis companies sold 20,650 kg of dried cannabis and 20,096 litres of cannabis oil. However, several stocks are now grappling [with competition from the illegal market](#) that has impacted sales.

Cannabis giants have had to revise sales estimates lower, as the illegal recreational marijuana market accounts for 40% of total sales due to their lower product prices. This combined with the vaping scandal, overvaluation, and regulatory issues has severely dented investment returns after stellar growth leading up to October 2018.

However, the cannabis market is estimated to experience robust growth for several years. According to HMMJ's report, the North American marijuana market is estimated to reach \$45 billion in sales by 2024. The upcoming legalization of cannabis-infused edibles, vapes, and concentrates is the key driver for cannabis stocks that have invested heavily in bringing these products to the market.

## The verdict

Cannabis is a highly regularized industry, and any deviation from ethical practices might result in a huge fine or even a permanent suspension for companies. The risk/return ratio is high and can be compared to the internet boom at the start of this millennium.

While there were hundreds of tech companies in the high-growth internet space, barely a few companies, such as **Amazon** and Google, could be sustainable over the long term. Similarly, the cannabis market right now has multiple players due to the huge estimated demand and the growing addressable market.

But as we had seen in the tech space, several of these cannabis companies might go bust. A few of them may be acquired driven by market consolidation, and there might just be a handful of winners over the next few years, which makes it critical to have HMMJ in your cannabis portfolio.

HMMJ is trading at \$10.5, which is 61% below its record high. It has lost 48% in the last 12 months and 13% year to date. But the new line of edible products will hit retail shelves by the end of 2019 and might drive up consumer demand. It is quite possible that the HMMJ ETF has bottomed out, unless global markets are severely impacted by a possible recession.

### CATEGORY

1. Cannabis Stocks
2. Investing

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