



If You're Going to Buy Weed, Buy It in Aggregate

Description

If you haven't noticed, Canadian cannabis producers are risky to own. The same volatility that allowed these companies to double on a weekly basis has allowed some of the same names to halve a weekly basis.

Here's my take on why investors looking to invest in cannabis ought to buy the Exchange-Traded Fund (ETF) tracking the sector: the **Horizons Marijuana Life Sciences ETF** ([TSX:HMMJ](#)) rather than buying and selling individual companies at any point in time.

While Canada's cannabis producers do tend to move in the same direction together, it's clear that some companies like **Canopy Growth Corp** have done a heck of a lot better than **Aurora Cannabis**. There are multiple reasons for this.

Each cannabis producer has different exposure to geographical markets, market segments (medical vs. recreational), consumer types/demographics (urban/affluent, rural/traditional), etc.

These factors create idiosyncratic risk unique to each producer and also create opportunity for outperformance if you make the right bet.

Why consider Horizons Marijuana Life Sciences ETF?

Similar to any other sector or index with a wide range of options with differing market capitalization and risk profiles, buying an ETF that tracks the sector allows for a smoothing out of returns across a large number of companies.

For highly volatile sectors like the Canadian cannabis space, anything anyone can do to limit volatility is worthwhile, in my opinion. From a long-term perspective, putting a small allocation of one's portfolio into something less volatile like HMMJ is a much better play for many reasons.

Diversification is key for any portfolio. When you think about highly volatile, extremely risky investments like cannabis, it's much better to bucket them together before throwing your funny money at these

companies because you don't want to lose it all in one place.

Bottom line

Personally, I still wouldn't touch the cannabis sector with a 10,000 foot pole for many reasons – among them is the heartburn I would get from seeing a position go up 5% on a Monday and lose 12% on a Tuesday.

This is the start of a typical week in the cannabis sector, and it's just not for me. For those with higher risk/volatility tolerance, and who believe cannabis companies are somehow "cheap" at these levels, go for it. I'll be on the sidelines cheering for you.

Stay Foolish, my friends.

CATEGORY

1. Investing

POST TAG

1. Cannabis
2. Cannabis regulations
3. Cannabis Stocks
4. legalization
5. Marijuana Stocks

default watermark

TICKERS GLOBAL

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

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Investing

Tags

1. Cannabis
2. Cannabis regulations
3. Cannabis Stocks
4. legalization
5. Marijuana Stocks

Date

2025/06/29

Date Created

2020/03/07

Author

chrismacdonald

default watermark

default watermark