



Is it Time to Bet Big on Cannabis Stocks?

Description

People certainly have time on their hands at the moment. I recently discovered that it is becoming difficult to buy items to occupy your time. Puzzles, cross-stitch kits, and even \$2,400 trampolines are sold out on many websites. People keep looking for other ways to entertain themselves. The recent legalization of marijuana may be another way for individuals to bide their time in solitude.

The problem, as the heady days of the marijuana trade taught us, is that it is exceedingly difficult to pick a winner in this nascent industry. Stocks fall as hard as they rise. Every company seems to go from hero to zero in the blink of an eye.

The solution is not to pick individual stocks at all. If you are going to try to invest your hard-earned cash in the long-term growth of the cannabis industry, it is best to focus on an ETF. As fellow Fool contributor Chris MacDonald recently wrote, if you are going to buy weed, [buy it in aggregate](#). The **Horizons Marijuana Life Sciences Index** ([TSX:HMMJ](#)) is the best way to do that in Canada.

The “conservative” approach

HMMJ is focused on [all of the players](#) in the space rather than an individual name. Some companies, after all, tend to focus on one specific area of cannabis production. Some companies have their businesses in recreational products. Others focus on medical products. An ETF will provide access to each area.

All of the big names in the sector are included in this ETF. Stocks like **Canopy Growth** and **Aphria**, and many others make up the majority of holdings. These companies will be survivors that will help propel the ETF upward in value over time.

The downside

Although I said it is most likely less volatile than individual stocks, it is still very much so when compared to a standard index ETF. The industry continues to grow with many winners and losers all lumped together. Losing stocks will drag down the ETF in the same way as it is lifted up by the winners. Over the long run, though, the losers should hopefully be eclipsed by the winners, as the

companies grow and mature.

The ETF also charges a fee that cuts into your gains. The management expense ratio is quite high relative to other ETFs at 0.75%, but that is to be expected with a specialized ETF. A recent development with the ETF is that it paid a distribution, which amounted to a yield of about 13% at the current market price. I would not count on the yield as an income stream yet, since this ETF does not have a long history of dividend payments.

The bottom line

People are looking for many ways to ride out the current crisis. It stands to reason that one way they might want to look for an outlet is to buy products such as cannabis for recreational use. Rather than taking a chance on any individual company, buying an ETF like HMMJ will help you capitalize on the cannabis trend while allowing you to spread your exposure across a number of companies and business strategies.

CATEGORY

1. Cannabis Stocks
2. Coronavirus
3. Investing

TICKERS GLOBAL

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

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