



TSX Pot Stocks: 1 ETF With a 13% Dividend

Description

At one point, pot stocks were some of the hottest ticket items on the **TSX**. Many investors made several times more than their initial investment, as newly licensed cannabis companies skyrocketed.

When the early pot stocks were first listed on the exchanges, a lot of investors avoided them. However, after it was clear cannabis would be legalized recreationally, these initially cheap stocks immediately boomed in popularity.

It wasn't until legalization hit that some tough growing pains caused a lot of the astronomical values to come crashing back down to earth.

These days, pot stocks can still be highly volatile, but there is much less of a chance for overnight success. Instead, like most other companies on the TSX, pot stocks are now a [long-term investment](#). This high volatility can be used to long-term investors' advantage, but only if you know the right securities to buy.

An ETF of TSX pot stocks

One way to invest in the cannabis sector is through an ETF, such as the **Horizons Marijuana Life Sciences Index ETF** ([TSX:HMMJ](#)).

There are plenty of benefits to investing in ETFs, and [HMMJ](#) represents a number of them.

For starters, since it's still so early, it's not easy to tell which companies will be the winners and which will be the losers. So, a more aggressive investment strategy would be to buy an individual TSX pot stock.

If you get lucky and buy the right stocks, you could make some big returns. However, if you buy the wrong stock, even if the industry continues to grow, you could end up losing a significant portion of your investment.

The ETF allows investors to be more conservative and spread that risk out among several companies. This way, long-term investors know they will be exposed to the success of the industry as a whole, and not just one company's success.

Similar to that, it also helps investors mitigate company-specific risks tied to other issues, such as fraud. There have been instances in the past of some cannabis companies committing fraud that ended up impacting shareholders considerably. By owning the ETF, you severely reduce this risk.

Another plus of owning the ETF is the weighting investors get to different TSX pot stocks. Of course, it makes sense that some of the biggest L.P's, such as **Canopy Growth**, are among the largest holdings. But the ETF also includes other ancillary businesses as well.

Scotts Miracle-Gro, a fertilizer business, **Canopy Rivers**, a cannabis royalty company, and **Neptune Wellness**, an extraction company, are all included in the fund's holdings.

What makes the ETF attractive?

At the moment, there is still considerable long-term potential for the industry to continue to grow and expand. However, in the short term, there is an even bigger opportunity for investors who buy today.

The ETF has paid out between \$0.20 and \$0.27 each of the last four quarters, bringing the trailing 12-month dividend to \$1.00. As of Thursday's closing price of \$7.38, that dividend gave the TSX pot stock ETF a trailing yield of more than 13.3%.

Some of the income the fund receives are from holdings that pay a dividend, such as Scotts Miracle-Gro. However, the majority of the income it gets comes from the interest it charges lending shares to short-sellers.

Because pot stocks continue to be highly volatile, the interest charged for borrowing stocks to short is high, which is what's making the dividend so impressive.

However, over time, as TSX pot stocks become less speculative, the cost to borrow will eventually fall, and so too will the dividends.

Bottom line

The Horizons Marijuana Life Sciences Index ETF is a great way for investors to get exposure to TSX pot stocks. The industry is one of the best long-term growth industries. However, it's not without risk. So, make sure you understand what you're buying and invest for the long run.

CATEGORY

1. Cannabis Stocks
2. Investing

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

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