



## TFSA Investors: Should the HMMJ ETF Be Part of Your Portfolio?

### Description

When you invest your savings in the equity markets, you aim to beat the broader markets and grow long-term wealth. One of the best strategies to achieve your financial goals at an accelerated pace is to buy and hold quality [growth stocks](#). So, you need to identify companies that are part of a rapidly expanding addressable market.

Once you identify these stocks, you can hold them in your TFSA, or Tax-Free Savings Account. The TFSA is a registered account, and any withdrawals in the form of dividends, capital gains, and even interest are exempt from Canada Revenue Agency taxes. The TFSA seems to be a solid option to buy and hold growth stocks, allowing investors to benefit from exponential gains over time.

Companies that are part of the cannabis space have the potential to increase your savings multifold due to the prospects of marijuana legalization in the U.S. and several other regions. According to a report from Grand View Research, the global legal cannabis market might touch US\$70.6 billion by 2028, indicating an annual growth rate of 26.7% in the next seven years, making it an extremely lucrative sector.

### The cannabis sector carries significant risk

Canadian cannabis companies were on an absolute tear just before the country legalized marijuana for recreational use. However, since the start of 2019, cannabis stocks have grossly underperformed the broader markets.

The optimism surrounding pot legalization quickly faded in the background, as cannabis companies were impacted by a slew of structural issues, including the slower-than-expected rollout of retail stores in major provinces, overvalued acquisitions, competition from a thriving black market, negative profit margins, and much more. This in turn resulted in high inventory levels, a high cash-burn rate, shareholder dilution, as well as multi-million-dollar writedowns.

Canadian cannabis stocks such as **Aurora Cannabis**, **HEXO**, **Canopy Growth**, and **Cronos Group** are trading 95%, 89%, 69%, and 71%, respectively, below record highs. However, the possibility of

marijuana legalization at the federal level south of the border and other international markets might provide cannabis stocks an opportunity to gain momentum once again.

Investors should note that the cannabis sector is still at a nascent stage and can be compared to the dot com bubble of early 2000. It means this space will attract several players, increasing competition as well as consolidation in the upcoming years. There will be a few winners that will grow your investments at a stellar rate. But several other companies may go bankrupt due to the above-mentioned issues.

## The HMMJ ETF offers you exposure to the cannabis space

In case you want to invest in the cannabis sector, purchasing an exchange-traded fund like **Horizons Marijuana Life Sciences ETF** ([TSX:HMMJ](#)) might be the best option. An ETF will provide investors exposure to several stocks, thereby reducing overall risk.

The HMMJ ETF aims to replicate the performance of the North American Marijuana Index. The ETF is rebalanced quarterly and provides investors access to a basket of publicly listed life sciences companies in the marijuana industry.

The [top holdings](#) of the HMMJ include **Tilray**, **Innovative Industrial Properties**, Cronos Group, and Canopy Growth; they account for more than 50% of the index fund. The HMMJ ETF has gained 36% in the last year but is still trading 56% below its all-time high, allowing cannabis investors to buy the dip.

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