2 Ways to Make a Profit Even as Weed Stocks Collapse

Description

It's been a rough year for weed stocks across the board. From the largest producer to the tiniest upstart, valuations have been slashed as investor sentiment shifted from irrational exuberance to outright pessimism. However, there's always an opportunity to make a profit if you're willing to think unconventionally.

Here are the two stocks that could survive and thrive in 2020, even as the cannabis market enters a period of severe correction and consolidation.

The dividend-paying pot fund

Horizons Marijuana Life Sciences Index ETF (TSX:HMMJ) is probably the safest bet in an unpredictable and volatile market. The exchange-traded fund carries a basket of marijuana stocks weighted on market capitalization.

This means the fund offers exposure to the best of the crop and a diversified basket that represents the entire legal marijuana industry. Bear in mind that the sector is still estimated to be worth $200 billion over the next decade, which means at least some of the current players have to emerge as winners over the long term.

Meanwhile, quarterly portfolio readjustments will eventually eliminate the losers and bolster the portfolio as the market regains stability.

But diversification and long-term potential are not the only reasons I like HMMJ. Instead, the best feature of the fund is that it *generates an operating profit and offers a dividend!*

The company allows traders to borrow its underlying holdings in exchange for a hefty (usually double-digit) interest rate. That helps it generate cash, even when the market is correcting, and especially when things get volatile. The current dividend yield is a jaw-dropping 7.5%.

The cannabis landlord

Another unique segment of the industry that seems to be emerging south of the border is cannabis-related real estate investment funds (REITs).

Innovative Industrial Properties and GreenAcreage Real Estate have both launched REITs in recent years to buy and manage cannabis production facilities that can be rented out to top producers across North America.

At the start of 2019, IIP held 19 properties and generated $6.6 million in rent over the first three months. The stock currently offers a 4.3% dividend yield. Meanwhile, GreenAcreage issued seven million shares and raised $141 million to buy more properties earlier this year.

While IIP is listed on the New York Stock Exchange, GreenAcreage is still private, so Canadian investors may have to jump through extra hoops to gain exposure. However, I have no doubt that similar Canadian REITs could be on their way soon.

Foolish takeaway

It’s been an eventful few years for the Canadian marijuana sector. After seemingly endless upticks in valuations last year, this year has seen billions in market cap wiped out from the entire sector.

As the market plummets and some companies fail, others are likely to consolidate and emerge stronger. While this shakeout is unpredictable, there are other tangential ways to bet on the market profitably.

REITs and the sector’s key exchange-traded funds offer healthy returns and a lower-risk profile for investors who remain optimistic about the long-term prospects of legal marijuana. The recent dip in valuations may be the perfect opportunity to add some exposure here.

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

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