

plumforbusiness.com

Enjoy the flexibility to choose your payment option each month. Early Pay Discount OR Defer Pay Option

Is the Plum DECID

ARTICLE COMMENTS (0)

SAVE EMAIL

PERSONAL SAVINGS from American Express

A FEW MORE REASONS TO SAVE.

1.30% APY

NO FEES
NO MINIMUM BALANCE

A HIGH-YIELD SAVINGS ACCOUNT FROM AMERICAN EXPRESS

LEARN MORE

Accounts offered by American Express Bank, FSB. MEMBER FDIC

Cheap health stocks seen outpacing other sectors



Lewis Krauskopf - Analysis
NEW YORK
Fri Apr 16, 2010 3:48pm EDT

Stocks

The Goldman Sachs Group, Inc.
GS.N
\$160.70
-23.57 -12.79%
3:01pm EDT

Johnson & Johnson
JNJ.N
\$65.02
-0.49 -0.75%
3:00pm EDT

Abbott Laboratories
ABT.N
\$52.26
-0.10 -0.19%
3:00pm EDT

(Reuters) - Healthcare stocks are poised to outpace the broader market for the rest of the year after a rough start, as investors find the cheap valuations irresistible.

The Standard & Poor's Health Care Sector index .GSPA had risen only 1.6 percent this year through Thursday, compared with an 8 percent climb for the broader S&P 500 index .SPX.

Strong dividends and balance sheets are enticing to investors, as are the basic demographics: an aging population that leads to greater demand for health services and products. Yet uncertainty over the fallout from the recently passed U.S. health overhaul may keep investor enthusiasm in check.

"There's very little downside risk in the stocks because they're low P/Es, high dividends, strong balance sheets," said Bill Smead, portfolio manager of the Smead Value Fund. At 27 percent, healthcare is the Smead fund's biggest weighting.

"The second half of the year is likely to be a lot better for these stocks," Smead said.

Healthcare, the third worst-performing sector this year behind telecommunications companies and utilities, showed its resiliency on Friday, as news of fraud charges against Goldman Sachs Group Inc (GS.N) shook the market. The S&P 500 was down 1.5 percent in afternoon trading versus only a 0.5 percent decline for the healthcare index.

"Going forward, you don't have much downside risk," said Bernie McGinn, president of McGinn Investment Management. "They're not going to go anywhere because they haven't had the run-up."

Healthcare has been caught in a rotation out of defensive shares and into cyclical stocks as

MOST POPULAR MOST SHARED

1. Goldman Sachs charged with fraud by SEC | VIDEO 3:32pm EDT
2. WRAPUP 8-Volcanic ash grounds flights across much of Europe 3:04pm EDT
3. Volcanic ash grounds flights across much of Europe | VIDEO 3:07pm EDT
4. Thai PM gives army chief extended powers amid crisis | VIDEO 2:55pm EDT
5. Wall Street drops on Goldman charges, earnings 4:10pm EDT

GOLDMAN SACHS



Goldman charges bolster case for reform

Fraud charges filed by federal regulators against Goldman Sachs immediately added momentum to the push on Capitol Hill for financial regulation reform. [Full Article](#) | [Commentary](#)

SEC finally lights fire under Goldman smoke

[Read the SEC complaint detailing Goldman charges](#)

[Felix Salmon: Goldman's Abacus lies](#)

[Read Goldman's Abacus pitch book](#)

Cheap health stocks seen outpacing ot...

investors become more optimistic about an economic recovery. A reversal in sentiment over the economy could lead investors charging back to sectors like healthcare that are perceived to be steadier in uncertain times.

"I don't think that it's going to continue unabated," Michael Farr, chief investment officer at large-cap growth investors Farr, Miller & Washington, said of the bull market. "I think we will have setbacks ... Therefore I think the healthcare could outperform from this point forward for the year."

One factor deflating excitement for the stocks is concern over the impact of the U.S. health reform law on profits.

"Once the sands underneath these companies quit shifting as a result of government intervention, investors will have better information and visibility upon which they can invest," Farr said. "When Wall Street doesn't know, Wall Street doesn't spend."

That lack of clarity stemming from the overhaul has David Katz, chief investment officer with Matrix Asset Advisors, wary about potential pricing pressure for drug makers and keeps him from diving into health insurer stocks.

"They're statistically very cheap, but we haven't been able to figure out the impact of the healthcare reform bill," Katz said of the health insurers.

Healthcare companies are trading on average at about a 20 to 25 percent discount to the broader market. Pharmaceutical companies and health insurers are trading at particularly low price-to-earnings ratios.

Overall, healthcare is "not a table-pounding buy group," Katz said. "The valuations are good, but there are more uncertainties."

The performance of healthcare companies will take center stage next week when many of the sector's titans report quarterly results.

Johnson & Johnson ([JNJ.N](#)), Abbott Laboratories Inc ([ABT.N](#)) and Amgen Inc ([AMGN.O](#)) are expected to report at least slightly higher profit, while Eli Lilly & Co ([LLY.N](#)) and UnitedHealth Group Inc ([UNH.N](#)) are projected to post lower earnings.

"My guess is their earnings growth will be a little less spectacular than more industrial or cyclical companies," said Bob Schaeffer, portfolio manager with Becker Capital Management. "I don't think there are going to be any Intels ([INTC.O](#)), if you will, in the healthcare patch this quarter."

Schaeffer likes healthcare in general but is largely avoiding pharmaceuticals, which face growth challenges due to patent expirations and few major new products. Schaeffer also is worried that the drug industry's low tax rates are not sustainable.

He prefers medical supply and product companies such as Becton Dickinson & Co ([BDX.N](#)). Katz also favors medical product companies, including St Jude Medical Inc ([STJ.N](#)), Medtronic Inc ([MDT.N](#)) and Zimmer Holdings Inc ([ZMH.N](#)).

"We think they have favorable intermediate to long-term outlooks, don't have patent issues, and seem to have a manageable path with healthcare reform," Katz said.

Smead's fund is more bullish on drugmakers, holding Bristol-Myers Squibb Co ([BMJ.N](#)), Merck & Co Inc ([MRK.N](#)) and Pfizer Inc ([PFE.N](#)). Among his favorites is Amgen, which is awaiting an expected July decision from the U.S. Food and Drug Administration on its osteoporosis drug Prolia, a potential blockbuster.

Drug approvals could prove to be a catalyst for further investment in the industry this year, Smead said, as would any hints of moderating economic growth that would hit other sectors of the market.

"The next time everybody decides to worry about something, it won't be these companies they worry about," Smead said.

(Reporting by Lewis Krauskopf, editing by Gerald E. McCormick)

ADD A COMMENT

Empty comment box with a small icon in the bottom right corner.

*We welcome comments that advance the story directly or with relevant tangential information. We try to block comments that use offensive language or appear to be spam and review comments frequently to ensure they meet our standards. If you see a comment that you believe is irrelevant or inappropriate, you can flag it to our editors by using the report abuse links. Views expressed in the comments do not represent those of Reuters.

Ads by Google

[What's This?](#)

[Best Penny Stocks To Buy](#)

Up To 3000% Returns. Free Sign Up. Simply The Best Penny Stock Alerts.
[www .OxOfWallstreet.com](http://www.OxOfWallstreet.com)

[Buy Stocks for \\$4](#)

No Account or Investment Minimums. Start Trading Stock Today!
[www .ShareBuilder.com](http://www.ShareBuilder.com)

[Killer Penny Stock Alerts](#)

100% Free. Killer Returns. Make money fast with our alerts.
[www .KillerPennyStocks.com](http://www.KillerPennyStocks.com)



Goldman Sachs charged with fraud

The SEC alleged that Goldman structured and marketed a debt product related to the performance of subprime mortgages, and which cost investors more than \$1 billion. [Full Article](#) | [Live Coverage](#)

[The Verdict: The SEC comes out swinging against Goldman](#)

[Read the SEC complaint detailing Goldman charges](#)

[Felix Salmon: Goldman's Abacus lies](#)

[Read Goldman's Abacus pitch book](#)

GOLDMAN SACHS



SPECIAL REPORT:

Tackling homegrown threats

Sergeant Mike Abdeen is trying something different to help prevent radical militants from recruiting young American Muslims to violent jihad. Reuters examines the treacherous politics of wrestling with homespun terrorism. [Full Article](#)

[Slideshow: Muslim-American voices](#)

U.S.



We have liftoff ... almost

This quirky space-age car gets 100 miles per charge, or the equivalent of 200 miles per gallon. Has its time come? [Full Article](#) | [Slideshow](#)

[Solar blimps for clean cargo haul?](#)

GREEN BUSINESS



Cheap health stocks seen outpacing ot...

REUTERS

- Contact Us
- Advertise With Us
- Help
- Journalism Handbook
- Archive
- Site Index
- Video Index

- Analyst Research
- Mobile
- New sletters
- RSS
- Podcasts
- Widgets
- Your View
- Labs

THOMSON REUTERS

- Copyright
- Disclaimer
- Privacy
- Professional Products
- Professional Products Support
- Financial Products
- About Thomson Reuters
- Careers

ONLINE PRODUCTS

- Acquisitions Monthly
- Buyouts
- Venture Capital Journal
- International Financing Review
- Project Finance International
- PEhub.com
- PE Week

Thomson Reuters is the world's largest international multimedia news agency, providing investing news, world news, business news, technology news, headline news, small business news, news alerts, personal finance, stock market, and mutual funds information available on Reuters.com, video, mobile, and interactive television platforms. Thomson Reuters journalists are subject to an [Editorial Handbook](#) which requires fair presentation and disclosure of relevant interests.

NYSE and AMEX quotes delayed by at least 20 minutes. Nasdaq delayed by at least 15 minutes. For a complete list of exchanges and delays, [please click here](#).