



RADY PRESS RELEASE

Healthcare opportunities and sector rotation

Even though the market has rallied in excess of 50% since the March lows, there have been a number of sectors that have remained out of favor. One of the most interesting examples of this are equities in the healthcare sector. Many of these stocks continue to trade at or near their 52-week lows. As contrarians, our strategy is to differentiate between short term transitory issues and permanent impairments of value. While we do see good reason for concern, especially with the overriding presence of the government's healthcare initiative, it is important to recognize that every company in the sector will not be impacted equally. We believe that healthcare related companies in the service space (i.e. HMOs, Insurers) and those with commoditized product portfolios (i.e. generic drugs) are likely to be most vulnerable to margin compression. Although some of this margin compression may be offset by increases in volume because more Americans will presumably have access to healthcare. It is our belief that there currently is an extraordinary opportunity in the drug and biotech space, specifically in companies with strong IP, product pipelines and portfolios with long term patent protection.

The following two companies are strong examples of opportunities we find very attractive from a risk reward perspective. Cephalon is a biotech firm trading near its 52 week low with a very robust product line and attractive valuation metrics. We believe this company is underappreciated by Wall Street and has an extremely favorable asymmetric risk/reward profile. Another example is Myriad Genetics, a molecular diagnostic company trading near its 52 week low. The company's earnings and revenues have grown at over 50% annualized for the past 2 years. Given its virtual monopoly position in this space, we believe the street is not attributing enough value to its long term intrinsic value and growth rate. These are just a few examples of proverbial "babies being thrown out with the bathwater".

While we believe the proposed healthcare plan will have a significant impact on the overall industry, in recent weeks compromises have been made which should shift more power and influence away from the government and socialized medicine to the private sector which we view positively. This along with many other factors, and our extensive fundamental bottom-up research, has led us to uncover what we consider to be some extraordinary contrarian opportunities in this space.

It is important to recognize that in any market environment (bullish or bearish) sector rotation is always occurring, moving some stocks into and out of favor, thereby creating opportunity for us on both the long and short sides of our portfolio.

We would encourage you to click [the below video link](#) for Rady Asset Management's portfolio manager, Harry Rady and his commentary on CNBC discussing the healthcare sector.



The above commentary is for information only and does not constitute an offer to buy or sell any security. The opinions expressed are those of Harry Rady, Founder and CIO of Rady Asset Management LLC.