

# Search for safety takes healthcare to top of S&P

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By Leah Schnurr

NEW YORK (Reuters) - With the economic crisis hurtling full speed ahead, investors have plowed cash into health care stocks, making it the largest group on the S&P 500 in at least 20 years as the search for safe havens abounds.

Health care companies are an alluring bet as cash-strapped consumers will cut back on expensive leisure activities before they hold off on aspirin, band-aids, prescription drugs and hospital visits.

Adding to its shine, a deep broad market sell-off has left shares at relatively cheap prices, while the sector is one of the few to show earnings growth for the last quarter.

"Preservation of capital is the theme for 2009," said Marc Pado, U.S. market strategist at Cantor Fitzgerald & Co in San Francisco.

That "leads in the direction of defensives -- things that people cannot live without, health care being one of them," Pado said.

The health care group slipped past technology on Monday to become the biggest of the ten S&P 500 sectors with a 16.98 percent of total index.

Techs have also been viewed defensively as investors have snapped up companies with large cash reserves that enable them to more easily survive the economic slowdown.

Beyond the defensive appeal, the health care group is one of just three sectors that are on track to finish the fourth-quarter earnings season with positive earnings growth.

Health care is by far the leader, according to Thomson Reuters data, which shows an 11 percent blended growth rate, which combines numbers for companies that have reported and estimates for companies yet to report.

"That's pretty good earnings growth in any environment and in this environment, that's spectacular earnings growth," said Steve Sachs, director of trading at Rydex Investments in Rockville, Maryland.

Among bright spots in the earnings season, pharmacy benefit manager Medco Health Solutions Inc reported a jump in profit on Tuesday as it saw an increase in generic drug sales and home delivery prescriptions.

Medco also stood by its 2009 profit outlook in a quarter that has been characterized by companies cutting forecasts or failing to give one due to the economic uncertainty.

Interest in the health space has also been piqued by Pfizer's offer to buy rival Wyeth for \$68 billion, a rare blockbuster deal at a time when credit markets remain tight.

But health care shares cannot all be painted with the same safe haven brush, analysts cautioned. Companies with more reliance on discretionary spending, such as Botox maker Allergan Inc, run more risk of being hurt as consumers tighten their belts.

**"There are some real value traps in the sector," said Harry Rady, CEO and portfolio manager for Rady Asset Management in San Diego, who owns Schering-Plough Corp.**

**"More than ever, you have to be sensitive to what truly is discretionary and nondiscretionary," said Rady.**