

Biotech sector ready to boom

I HAVE spent the last few weeks writing about planning for retirement and some of the common pitfalls many people



Finance

By Don Freeman

make. Now it's time to turn our attention to opportunities in the market today. For those that have not yet invested and feel that they missed the market rally, I still see plenty of opportunities in today's markets.

The bull market is still intact because investors have no place else to put their money. Global interest rates remain at historical lows and, as a matter of fact, bond yields have been drifting lower this year. US 10-year Treasury Notes were yielding around 3% back in January. Now, they're paying around 2.4%. This is causing investors to buy stocks on any pullbacks.

Another sign that this is a healthy bull market is that all sectors are participating. Back in 1999 and 2000, it was just technology stocks that were rising while other stocks lagged. In looking at the stocks making new highs, we see that stocks from various sectors are participating. Stocks that have made recent highs include stocks from the biotech, semiconductor, telecom, energy, and mining sectors.

One sector that I like, and that continues to outperform, is the biotech sector. There are three factors driving this sector right now. One of these is the fact that Ebola outbreak in Africa has thrust biotech back in the news. The reality is that diseases like Ebola are continuing to pop up and affect a growing global population. The only way to fight diseases like Ebola is with drugs.

The second factor driving biotech stocks is mergers and acquisitions (M&A). The big pharma companies have seen many of their premier drugs go off patent. The result is that they need new drugs in their pipeline. While they do have large research and development (R&D) budgets, the easiest way for them to grow is to just buy a promising

biotech company with a hot new drug. Just last month we saw Roche do just that when it bought InterMune for \$8.3 billion.

The third factor is that several biotech names have very promising drugs about to come out. Amgen and Regeneron have new cholesterol drugs coming out that a lot of doctors are talking about. Perhaps the most promising drug comes from Gilead Sciences, which has a new Hepatitis C drug coming out. The new drug is expected to produce yearly sales of US\$12 billion to \$13 billion. Shares have risen 60% so far this year, but are still trading at only 13 times this year's expected earnings. This is quite cheap for a biotech stock with a sought-after drug.

One biotechnology stock my clients own is close to finding a vaccine for dengue fever, the world's fastest-spreading tropical disease. In the first year I moved to Thailand I had dengue fever and never experienced anything like it before. After seven days of trying to tough it out, I almost died, and was admitted to hospital. It can be very serious. A large, well known medical company, Johnson & Johnson is partnering with the University of Leuven in Belgium and the UK's Wellcome Trust in an effort to combat dengue fever as well.

For investors looking to play the sector, I recommend the iShares Nasdaq Biotechnology ETF. It is comprised of all the leading biotech names and is better for investors when it comes to market volatility. While this ETFs rise has not been as fast as Gilead Sciences this year, it's still up 21% year-to-date.

This ETF gives you the advantage of capturing the growth of the entire sector. Biotech is expected to show very strong earnings growth going forward because of the factors I listed above. Next year, the biotech sector is expected to see earnings growth of



The biotech sector is recession proof, making it ideal for investing. Photo: Kurt Barnett

35%. Corporate earnings for the S&P 500 are expected to grow only 15% next year.

What I really like about biotech is that it's recession-proof. No matter what, people are not going to cut back on drugs to treat their diseases. With an aging population and more people getting sick, this is a license to print money. We're seeing this not only in the US and Europe, but in emerging economies like Thailand and other Asian nations. More people have access to better health care than ever before and with that come more treatments. People will stop buying their Tesla automobiles if things get tough, but they still need medications to treat their heart disease, cholesterol and other ailments.

Because of all these factors, biotech stocks will head higher over the long-run.

It goes back to what I said in my earlier articles. If you're looking for a six month opportunity, the stock market isn't for you. But if you have a three to five year time horizon, biotech is certainly a place you want to be.

As always, feel free to give me a call, email or Skype and we can discuss if biotech stocks are right for you.

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NGV, LPG prices to rise: Ministry

THE Energy Ministry is considering adjusting natural gas prices so that it reflects production costs, although assistance will be provided for those affected by such a rise.

Permanent Secretary for Energy Areepong Bhoochaoom stated that changes would also be made to the prices of liquefied petroleum gas (LPG) and natural gas for vehicles (NGV), with costs moving in an upward direction.

Following the recent reduction of retail oil prices as part of the junta's energy reform plan, Areepong stated the hikes have been planned to make the domestic gas prices comply with market mechanisms and correspond to actual production costs.

Areepong said the price adjustment has already been approved by the junta and is pending consideration by the Committee on Energy Policy Administration. In the meantime, he revealed the ministry is trying to create an understanding among the public



The cost of gas is set to rise to reflect production costs. Photo: Varodrig

about the need for the price increases and assistance measures are being drawn up for all sectors that might be impacted.

The permanent secretary has discussed the matter as well as other projects with the new Energy Minister Narongchai Akrasanee.

He disclosed that on September 12 the minister is scheduled to visit Myanmar, where he will meet with his Myanmar counterpart to discuss possible future energy cooperation between the two countries.

— The Nation