

## PowerShares Dynamic Biotech & Genome (PBE)

By Don Freeman

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In this letter, we will profile the ETF known as the “**PowerShares Dynamic Biotech & Genome**” ETF. This exchange-traded fund essentially is trying to mock the “Dynamic Biotech & Genome Intellidex Index (DZO)”, which can be thought of like a Dow Jones Index for biotech and genome industrial companies. As such, the ETF has a variety of companies that are at the outer reaches of technology, and are by extension growth stocks.



The beauty of investing in an ETF instead of particular companies is that a particular company may run into trouble with a regulatory agency such as the FDA, due to poor test results, while the others can often more than compensate for that company’s losses as this area of scientific research can often yield astronomical returns on investment. By default, many of the new drugs that these companies come up with are ground-breaking as they are always pushing the boundaries of scientific knowledge.

Some of the names that make up this ETF include Illumina Inc. (ILMN), Life Technologies Corp. (LIFE), Gilead Sciences (GILD), and Waters Corp. (WAT). In all, there are 30 companies that make up both the index, and this ETF. In this letter we will take a look Waters Corp., which currently makes up 5.03% of the fund, and Lifeline Systems, which makes up 4.85% of the fund.

### Fund Holdings subject to change

Biogen Idec Inc.	6.45%	Alexion Pharmaceuticals Inc.	4.58%
Waters Corp.	5.34%	Illumina Inc.	4.58%
Sigma-Aldrich Corp.	5.04%	Gilead Sciences Inc.	4.47%
Amgen Inc.	4.89%	Ariad Pharmaceuticals Inc.	3.45%
Life Technologies Corp.	4.63%	Momenta Pharmaceuticals Inc.	3.35%

As of 4/29/2011

### Top Holdings: PowerShares Dynamic Biotech & Genome ETF

The Waters Corporation specializes in such diverse products as mass spectrometry systems, thermal analysis, rheometry, and many other types of services that allow companies that are dependent on laboratory-based healthcare delivery, water quality,

food safety, and environmental management. With the never-ending advancements in technology and constant research done in healthcare and even the “mundane” areas such as food safety, there is a built-in demand for these products and services.

The Waters Corporation has recently reported a profit margin of 23.23%, massive revenue per share of \$17.79 over the last 12 months, and has just over \$946 million in cash on hand. Because of this, the company certainly shows financial strength as it not only can expand, but can also weather any economic downturns due to its strong balance sheet. The quarterly revenue growth over the last 12 months on a year-over-year basis has been 12.80% as well. Certainly this company is on fire lately.

Looking at the technical side, the stock gapped up on large volume on April 26, 2011. This is an extremely bullish sign, as it shows massive buying. The stock has also broken out of a basing channel that it had been building for several months. Because of this, the charts look just as strong as the financials. When both line up, this shows a very positive opportunity for investors.



Life Technologies is another stock that makes up this ETF. Life Technologies has several different brands, creating a nice diversified portfolio of products. One such brand is Applied Biosystems, which provides innovative instrument systems that allow academic and clinical research to be done in an accelerated environment. Invitrogen helps with

such things as amplification of nucleic acids, which helps researchers and scientists work with smaller samples in the genome world.

Life Technologies Corporation recently reported that the profit margin over the previous 12 months was 10.54%, and that its gross profit was \$2.11 billion over the same time period. Quarterly earnings growth year-over-year was an astounding 44.50%, which shows exactly how explosive the growth in this company is. It also has \$836 million cash on hand, which allows it to weather just about any storm that comes its way.

Looking at the charts, LIFE is currently breaking to the upside on a cup-with-handle pattern that is also at the stock's highs. This shows that the stock is currently entering a breakout mode, and could end up going much higher.



### **PowerShares Dynamic Biotech & Genome ETF (Technical Analysis)**

Looking at the chart of the ETF, you can see that the PBE has started to break out, as it has cleared the all-time highs around the \$22.50 area. This is very bullish as the ETF looks to go much higher based upon the technicals. As noted on the chart below, you can see that it recently has broken through major resistance, clearing the way for bulls to push prices much higher.

This bodes well for the entire sector, as the ETF covers so many diverse companies with varying degrees of risk profiles. By using this vehicle to play the Biotech and Genome industries, you can get exposure to testing equipment, testing facilities, accelerators, and various other products that academia and researchers rely on for advances in pharmaceutical advances from a day-to-day perspective. Simply put, this area is where a lot of your breakthrough medicines get their starts.

With the aging baby boomer generation, it is expected that pharmaceutical and genetic-related treatment sales will only increase with time. This ETF is a great way to play that theme.



### About Freeman Capital Management, LLC

Don Freeman is President of Freeman Capital Management, a Registered Investment Advisor with the U.S. Securities Exchange Commission (SEC). He provides personal financial planning and investment advice to expatriates and teaches financial courses throughout SE Asia and the United States.

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