Stumbling Toward Stability

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Face to Face

Writing equity research is about timely, credible and insightful analysis. Our independent research continues to gain a foothold in the financial services industry due to the declining stock coverage by sell-side firms.

Our mission is to provide investors with value-added objective intelligence and actionable investment conclusions on a timely basis. We will not be influenced nor will we respond to pressures for any conclusions, recommendations, valuations or price targets.

My intensity "to get it right" reflects my conscience and certification! Scimitar is proud of its many long-standing relationships with financial institutions, asset managers and other investment professionals.

Panic Selling

Irrational fear has trashed almost anything that trades. More that a decade of growth has been wiped out from US stocks. Public and political sentiment has pushed the market to venues not seen since 1997.

The global hedge fund industry contracted by 9 percent to $1.56 trillion last month; the lowest level in two years on the back of massive redemptions and deteriorating stock markets … Investors withdrew $40 billion from hedge funds in October. Hedge funds are driving the latest sell-off due to leveraged portfolios now with demands of their lenders.

Losses in the markets, meanwhile, shaved $155 billion off the industry's value, it said. Funds of funds were also hard-hit, with investors pulling $22 billion (Bloomberg).

Impossible to call the bottom of this market rout. Wait 6-9 months … June to September; but, can healthcare equities sustain the time element.

The Turmoil on Wall Street Reflects Biotechs and Pharma

Do not exaggerate Investment Banking's demise and power of survival. New rules are inevitable but not much will change. This disruption in this market will give x-big bankers newly formed firms and priorities to hatch. Many banks and brokerage firms have scaled back analysts and shuttering research divisions due to diminished economics.

Only one in nine compounds make it through development and receive approval. Clinical results, technical breakthroughs, intellectual property fights, management competence, unpredictable financial markets and limited market access have created uncertainty in valuation and emerging healthcare company sustainability. VC's need exits and are cutting investment in their current portfolios, IPO's are non-existent, PIPES are for plumbing and not markets; we will see more mergers, acquisitions and bankruptcies in the emerging healthcare universe.

However, investors need independent analysis to understand the underlying science, clinical relevance, trial designs and the mechanics of why an informed institutional should consider an investment in emerging healthcare companies. Clinical trial success has been a determinant in valuing a compound, however, forecasting the valuation format is now an important toll in portfolio attraction and retention.

Nonetheless, drug discovery remains the foundation on which the Pharma industry looks for growth.

The Real Issue - Confidence

Money isn't leaving the vault after redemptions, selling and depreciated leverage but sitting on the sidelines. The biggest challenge to small public companies is the difficulty of stimulating investor interest when larger credit market issues exist.

We haven't we seen the worst yet and there is no bright future as the market currently has no direction at the moment.

Research coverage has a legitimizing voice. Investors and shareholders are looking for confidence and legitimate, independent verification that emerging healthcare companies are meeting milestones and reaching established goals. Unfortunately, most sophisticated investors will not take management's word for a company's prospects.

Valuations are cheap. The market is deeply oversold and the deleveraging that has caused such heavy selling is close to two thirds finished but investor liquidity is at a record high. Market news and macro events related to the credit markets has not been fully actualized.

We should be setting up for a better growth move!

Today's Crisis - Sentiment

The market is paralyzed by facts and the news of the day.

This market is lately driven by fear versus greed. Too much fear has depreciated stocks on this long road to the down side. This feeling or sentiment is the summation of a variety of factors including market data, technical analysis, government reports and/or national and world events. The simple fact is that sentiment is most negative force in this market.

Wall Street suffered its most devastating defeats these past months. As a result, sell-side research funding has been reduced and firms were forced to limit the number of companies to provide coverage.

However, institutions, brokers and hedge funds sold most of their future growth and have raise large amounts of cash that will have to be put to work.

This time of maximum pessimism is the best time to buy.

Buy Where the Fear is … But, Define the Risks

Investors signed up for better market.

This is an opportunity to build a more sustainable portfolio. Investors need to better identify risks. Investors are asking more questions about the short, near and long term viability of the stocks – they own.

The US spends $2.3 trillion per year on healthcare. We all want to live longer and better yet ….. where better to invest!

Healthcare stocks represent a better value today than they did just a few months ago. As or if you have the ability to ride out the current market storms; average down and you should expect to be rewarded with higher returns over the long term than might have been expected a year ago.

All crises are accompanied by opportunity.

Are You Prepared to be a New Investor

Asset managers rarely act alone when investing in companies without research! Benchmarked milestones and catalysts help in illustrating how some companies prioritize and fulfill objectives while executing value creation.

As an analyst, having the courage to maintain consensus or go against the market requires real rigor in research coverage. Analysts need to better to define the risk. I feel we should not straddle a fence of recommendations.

In this volatile market, insight analysis and timely models are important tools in investor attraction and retention. It's extremely time consuming for the buy-side to do primary research on large numbers of stocks. For this same reason "quant screens" are often used to identify small companies that may be attractive on paper; but they ignore compelling qualitative factors that should dictate an investment. Better valuation models are - definitively – needed to quantify multiple factors of market, comparable, exit, fair and index value for healthcare companies.

Who are your fellow institutional investors and have you spent the time to facilitate your intelligence on sentiment and synergies to ensure you are covered by any selling and accumulation factors. Scimitar's qualitative insight and quantitative models is gaining a significant following as investors continue to seek cost effective equity research from trustworthy sources.

Better Communication is Needed to Investors

New metrics for investing must breakdown and define real progress for emerging company platforms while meeting quarterly expectation. Emerging healthcare companies need to communicate better with retail and security professions, asset managers and institutional advisors more and then more to define real share value.

Press releases don't define the meaning and consequences of the issued release, comparable analysis, capitalization structure, benchmarked milestones and valuation catalysts. One of the biggest challenges for emerging companies is the difficulty of obtaining a "now" and "real time" investment thesis for existing shareholders, new investors for institutional access.

Analysts must become more relevant by defining better metrics to acquire and translate competitive intelligence to create multi-factor valuation models to substantiate catalysts, risks and recommendation changes. Banks won't let go of research entirely, but independent analysis from small boutiques will focus the old coverage model to a more progressive format as investors re-examine their sources of intelligence and investing criteria.

Closing

There is bad news and good news. The bad news is we are in an official recession and the most damaging slowdown since the 1940's. The good news is that, after an extended period of over-inflation, share prices are very attractively priced.

Investors with long term horizons can access attractive market valuations; but there are still pressures for further declines as leveraged funds continue to offload assets at bargain prices and investors are now the true deciders of equity capital needs and valuation enhancement.

Scimitar's analysis facilitates share price discovery and market capitalization recovery; as a healthcare specific analyst, our mission is to disseminate high-quality, insight-provoking coverage as well as measure, monitor and track investor movement. We are known for the company we keep and proud of our long-standing relationships with financial institutions.