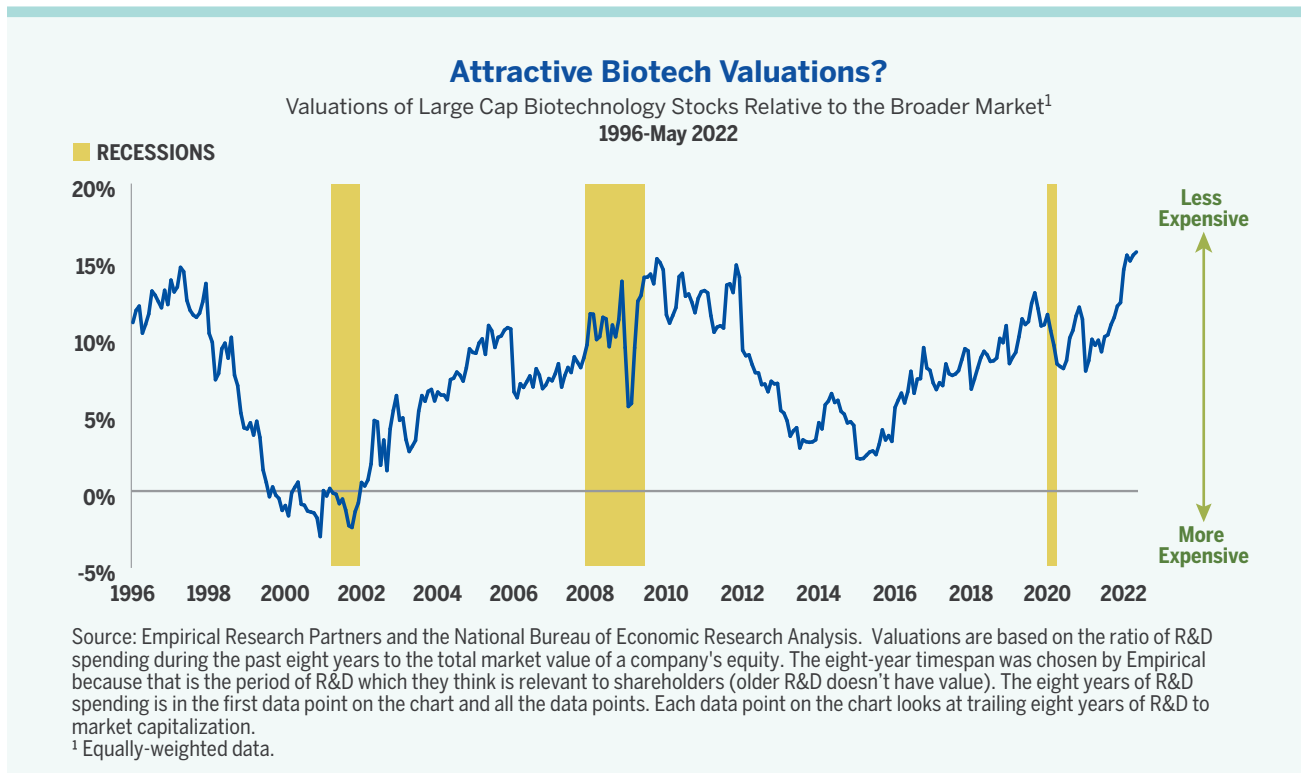


## Organic Growth?

One of the hardest hit areas in the markets has been biotechnology. These stocks have materially underperformed the broad market over the past year, but how appealing have their valuations become?



- Over the past year, many investors shunned companies lacking relatively high current earnings that may have strong growth potential. As a result, those types of stocks experienced the largest declines during the past year's market selloff. Biotechnology stocks as measured by the NYSE Arca Biotechnology Index (BTK) were notable laggards relative to the S&P 500 Index as these companies tend to have either no earnings or relatively low current cash flows.
- Since biotech companies generally tend to lack current profits, looking at the ratio of the past eight years of R&D spending relative to equity prices sheds light on how many investors are valuing drugs in the pipeline that have potential for government approvals. We believe, the higher the ratio, the less value the market is putting on drug development efforts.
- As shown in the chart above, among the largest 750 companies, R&D spending as a percentage of market capitalization for biotech companies relative to large caps is the highest in at least a quarter century, which we believe makes the stocks potentially attractive for investors looking to profit from the advances being made in harnessing organic materials to improve our lives.



The NYSE® Arca Biotechnology Index is an equal dollar weighted index designed to measure the performance of publicly traded companies in the biotechnology industry that are primarily involved in the use of biological processes to develop products or provide services. The S&P 500 Index is an index of large company stocks considered to be representative of the U.S. stock market. S&P 500 Index performance does not reflect deductions for fees or expenses.

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