PersonalFinance

Special Report

The Dirty Dozen: 12 Healthcare Stocks to Sell Yesterday!

by Jim Pearce and the IDEAL Team at Investing Daily's *Personal Finance*

As each round of quarterly earnings reports approaches, the risk of disappointing results harming your portfolio rises. For that reason, you should identify those stocks most at risk and consider taking action. You may want to sell them outright or put a stop-loss order beneath them in case the bottom falls out.

The stocks most at risk of taking a hit if their earnings reports don't meet expectations are those in an overvalued sector and with a low IDEAL score. At the moment, the riskiest sector is healthcare. Excitement over mergers and acquisitions drove up healthcare valuations to unsustainable levels recently. As a result the average IDEAL score for a healthcare stock is 3.45 on a scale of 0 to 10. Compare that with the average score of 4 for the entire Standard & Poor's 500-stock index. That means the average healthcare stock currently trades at a 28% premium over the market average.

We've identified a "dirty dozen" of healthcare companies. Each has an IDEAL score of 0-1, which means their share prices would have to drop by more than half to be valued fairly. I don't expect that to happen right away, but these stocks do pose a greater risk in the short term than any other group of stocks from any other sector.

Some of these stocks appreciated quite a bit during the past year, making parting with them emotionally tough. Something about punishing a stock by selling it, especially one that's brought you wealth, brings feelings of guilt and loss. Breaking up is hard to do. But be strong: The potential for loss far exceeds the opportunity for any additional gain.

When the stock market has been on a run like it has the past six years – doubling in value without a single negative year – eventually, too much money becomes concentrated in momentum stocks that trade at increasingly higher prices than the rest of the market. That's okay as long as new money comes in to drive those prices even higher, but sooner or later the flow of cash slows down and share prices fall.

The 12 Healthcare Companies Most at Risk

Company Name	Symbol	IDEAL Score	Recent Price	IDEAL Value
Danaher Corp	DHR	0	81.57	9.73
Varian Medical Systems	VAR	0	97.69	11.65
Vertex Pharmaceuticals	VRTX	0	154.15	18.42
Baxter International	BAX	0	60.91	14.52
Boston Scientific Corp	BSX	0	27.01	6.46
C.R. Bard	BCR	0	320.38	76.59
Cerner	CERN	0	64.6	15.44
Henry Schein Inc	HSIC	1	182.83	43.72
Hologic Inc	HOLX	1	44.12	10.55
St. Jude Medical	STJ	1	80.82	9.87
Waters Corp.	WAT	1	174.11	41.62
Zoetis Inc	ZTS	1	47.4	27.17

With quantitative easing now over in the United States, companies will have less capital to repurchase shares or acquire other companies. That won't harm businesses that can generate enough cash to continue these activities, but it does spell trouble for companies that relied too much on the Fed's large supply of cheap money.

The Danger Zone

I recommend going

through your portfolio and evaluating how each company should fare in this new economic reality. As part of that exercise, I also suggest looking at the IDEAL score for each company you own, highlighting those with a total score of less than 3. Those companies trade at above-average multiples and lack a growing cash flow, making them vulnerable to a collapse at the first hint of disappointing news.

To find a company's IDEAL score, visit the *Personal Finance* website and click on the S&P 500 link under the Data Tables tab. There is an IDEAL score for every stock currently in the index, which you can sort by company name, ticker symbol or sector by placing your cursor on that column header and clicking. Clicking again reverses the ranking from low to high or high to low. For your convenience, 20 of the lowest-ranked companies in six other sectors, along with their current IDEAL score, appear on this page. This list only includes companies with scores of 0 or 1, placing them in what I think of as the "danger zone" of overvalued stocks.

We don't own any of these low-scoring stocks in any *Personal Finance* portfolio, so this information is provided for those of you who do. Although you may not need to sell, you should place stop-loss orders up to 10% below the stock's current share price. Ultimately, momentum yields to value, and you don't want to get caught on the wrong side of that scenario when it happens.

Company Name	IDEAL Score
CONSUMER DISCRETIONARY	
Chipotle Mexican Grill	0
Nike	0
TripAdvisor	0
CarMax Inv	1
Yum! Brands	1
CONSUMER STAPLES	
Mead Johnson Nutrition	0
Brown-Forman	1
ENERGY	
EOG Resources	0
National Oilwell Varco	0
Transocean	0
Marathon Oil Corp	1
Noble Energy	1
INDUSTRIALS	
Acuity Brands	0
Kansas City Southern	0
Verisk Analytics	0
INFORMATION TECHNOLOGY	
Fiserv	0
Teradata	0
Yahoo Inc.	0
FINANCIALS	
Loews Corp	0
Moody's Corp	0

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IMPORTANT NOTES:
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Published by Investing Daily, a division of Capitol Information Group, Inc., 7600A Leesburg Pike, West Bldg., Suite 300, Falls Church, VA 22043. Customer Service: 800-832-2330.