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Subject: Biotech Sell-Off... [I]

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Jeffrey -

Biotech posted sharp declines. You are up \$970,282 across your basket of names as of yesterday's (3/24) close (detail below along with chart of Nasdaq Biotech Index and your holdings). Consider unwinding or hedging now and watching for entry point via total return swap or zero cost risk reversal as this negative momentum bottoms out. Note: Ariad an outlier (incrementally positive news on drug, Iclusig).

The Financial Times features an article this morning suggesting that the sell-off in Biotech is a signal of a broader market peak.

A letter from congressional representatives to Gilead questioning its plans to sell a hepatitis C drug (named Sovaldi) for \$84,000 per dose has put the spotlight on Congress' concerns that the expense might saddle state Medicaid programs with steep costs. US is the only major health-care market remaining without any meaningful drug price controls -- increased risk for the sector once the Congress gets involved, especially if focused primarily on pricing.

Description	Trade Date	Quantity	Last Price ¹	Unit Cost	Market Value	Unrealized G/L
SANGAMO BIOSCIENCES	05/28/2013	50,000.00	\$ 19.80	\$ 8.44	\$ 990,000.00	\$ 567,786.00
BIOGEN	02/14/2012	2,095.00	\$ 312.60	\$ 119.55	\$ 654,897.00	\$ 404,442.05
FOUNDATION MEDICINE	01/13/2014	25,000.00	\$ 36.40	\$ 27.51	910,000.00	\$ 222,336.50
GILEAD SCIENCES INC	2/5/14, 3/7/14	8,100.00	\$ 72.13	\$ 79.41	\$ 584,253.00	\$ (58,951.00)
ARIAD PHARMACEUTICALS	2/14/12, 1/24/13	16,535.00	\$ 7.60	\$ 17.60	\$ 125,666.00	\$ (165,331.40)
				Total Biotec	\$3,264,816.00	\$ 970,282.15

Nasdaq Biotech Index - 1yr Price History



Ariad - 1yr Price History



Biogen - 1yr Price History



Foundation Medical - 1yr Price History



Gilead - 1yr Price History



Sangamo - 1yr Price History



Healthcare sector has outperformed S&P500 last 4 years and has been the best-performing sector YTD

- Improving R&D returns
- Ongoing efficiency gains due to various 'self-help' measures
- More supportive regulatory and payor environment
- Increasing number of financings and IPOs in Q1
- Frequent upward revisions lately to sales estimates at the largest biotechnology companies

Nasdaq Biotech Index (NBI) dropped 4.4% Friday

- Sharpest decline since Oct-11

- Triggered by a [letter](#) from congressional representatives to a biotech company Gilead Sciences, questioning its plans to sell a hepatitis C drug (named Sovaldi) for \$84,000 per dose
- Gilead required to give briefing by 03-Apr
- Sovaldi expected to generate >\$4bn in sales this year
- The drug's expense might saddle state Medicaid programs with steep costs

The whole sector is at risk

- US is the only major health-care market remaining without any meaningful drug price controls
- Risk for the whole sector once the Congress gets involved, especially if focused primarily on [pricing](#)

The biggest NBI firms sold-off significantly

	1d chg (%)	Index Wt (%)
BIOGEN IDEC INC	-8.2	7.9
AMGEN INC	-3.2	7.8
GILEAD SCIENCES INC	-4.6	7.0
REGENERON PHARMACEUTICALS	-5.4	6.9
CELGENE CORP	-3.7	6.5
ALEXION PHARMACEUTICALS INC	-8.0	4.6
ILLUMINA INC	-5.4	4.6
MYLAN INC	-0.9	4.3
VERTEX PHARMACEUTICALS INC	-5.1	3.8
BIOMARIN PHARMACEUTICAL INC	-5.9	2.5

Ways to hedge exposure to the US biotech sector

- ProShares UltraShort Nasdaq Biotech Fund (BIS US Equity): designed to be 2x short the NBI
- Options on iSharesNasdaq Biotech ETF (IBB US Equity)

NBI – last 5 years



NBI vs S&P500 – last 1 year



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