Health Care and Your Investment Portfolio

Health care makes up roughly 18% of the U.S. economy and is expected to grow 5.6% per year through 2025.* In fact, experts anticipate ongoing expansion in this sector no matter what happens with the broader economy — thanks at least in part to the millions of aging baby boomers. “One of the things we jokingly say about health care is, ‘Whether or not there’s a recession, people still sneeze,’” says Michael Colón, First Vice President and Equity Sector Analyst with Wells Fargo Advisors.

When financial advisors look at investing decisions, Colón says, they often start with health care stocks. About 14.5% of the S&P 500 Index, which is often used as a proxy for the overall stock market, is health care companies. Within that 14.5%, the biggest subindustries are drugmakers, biotech companies, medical device manufacturers, and managed care companies.

Wells Fargo Investment Institute now recommends that investors overweight their portfolios in the health care sector, Colón says. That’s because an aging population is a major factor driving growth in the sector. But there are still unknowns. One of the big ones is what might happen in Washington.

An adaptable sector. “In our opinion, the Affordable Care Act definitely created some headwinds the way it was written,” Colón says, noting the law increased fees and taxes on some health care companies. At the same time, it also expanded the number of people with health insurance, which in turn can mean higher sales of drugs, medical devices, and medical services. In the time since it was enacted, however, insurance companies and other health companies have adapted to the new health care marketplace — especially the bigger, diversified managed care companies, Colón says.

So far, efforts to “repeal and replace” the Affordable Care Act in Congress have been unsuccessful, but there is still plenty of talk in Washington about making changes to — or eliminating entirely — the law. “Just the idea of something happening without a concrete direction or actual plan creates uncertainty,” Colón says. “Uncertainty is one of the biggest things the market doesn’t like.” Other legislation in Washington, though, could be a boon for some segments of the health care economy. For instance, if tax reforms encouraged companies to repatriate dollars from overseas — perhaps through temporary lower tax rates on those earnings — it could spark more mergers and acquisitions among biotech, pharmaceutical, and medical device companies.

Investment opportunities. Health care is often seen as a defensive investment, Colón says — perhaps a good place to consider regardless of market and economic conditions. After all, people still get sick no matter what the economy is doing. While health care is a large and diverse sector, not every investment is appropriate for all people. “Investing in biotech would not be a very good idea for a very conservative, income-oriented investor,” Colón says. “Biotech firms tend to be a lot more speculative in nature than your more established large pharmaceutical companies." Health care investment opportunities can also help meet other portfolio goals, such as international exposure.

*https://www.cms.gov/research-statistics-data-and-systems/statistics-trends-and-reports/nationalhealthexpenddata/nhe-fact-sheet.html

Sector investing can be more volatile than investments that are broadly diversified over numerous sectors of the economy. Some of the risks associated with investment in the health care sector include competition on branded products, sales erosion due to cheaper alternatives, research & development risk, government regulations and government approval of products anticipated to enter the market. Additionally, companies can be exposed to cuts in Medicare reimbursements as well as uncertainty surrounding healthcare reform efforts in the U.S. These risks can have a significant effect on investment in the industries within this sector and negatively affect a portfolio's pursuit of its investment objectives. Foreign investing entails risks not typically associated with investing domestically including currency, political, economic, and the risks associated with different accounting standards.

Wells Fargo Investment Institute, Inc. is a registered investment adviser and wholly-owned subsidiary of Wells Fargo Bank, N.A., a bank affiliate of Wells Fargo & Company.

This article was written by/for Wells Fargo Advisors and provided courtesy of David M. Gustin, AAMS®, Vice President-Investments in Melville, N.Y. at 631-753-4533

Investments in securities and insurance products are: NOT FDIC-INSURED/NOT BANK-GUARANTEED/MAY LOSE VALUE

Wells Fargo Advisors is a trade name used by Wells Fargo Clearing Services, LLC, Member SIPC, a registered broker-dealer and non-bank affiliate of Wells Fargo & Company.

.