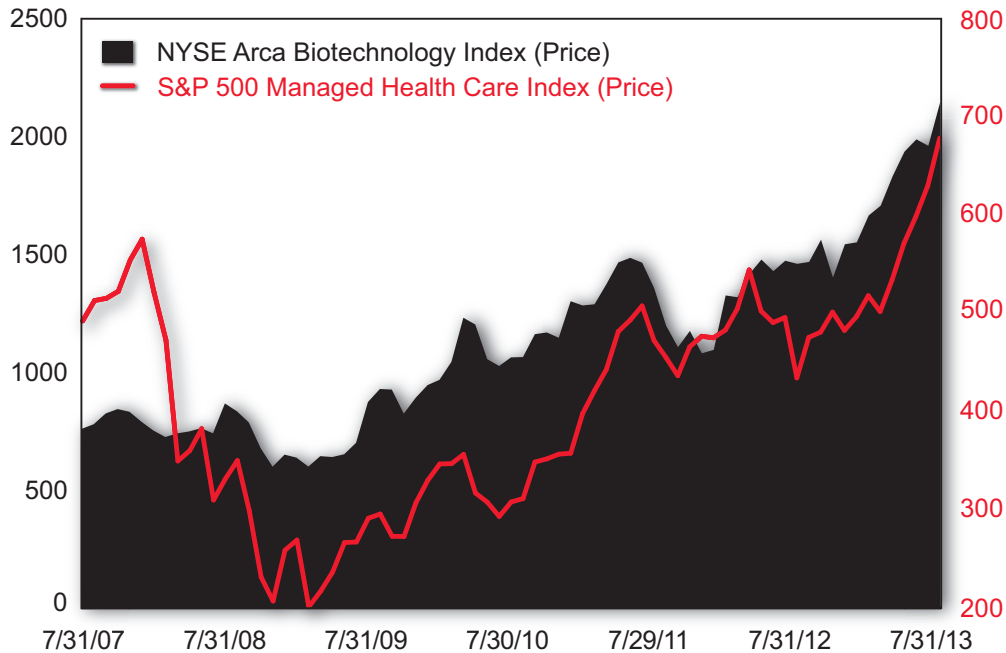


Cutting-Edge (Biotechnology) vs. Cutting Costs (Managed Care)

NYSE Arca Biotechnology Index vs. S&P 500 Managed Health Care Index



Source: Bloomberg. Data is monthly from 7/31/07 through 7/31/13. Past performance is no guarantee of future results.

View from the Observation Deck

1. Senate Majority Leader Harry Reid commented on the show "Nevada Week In Review" on 8/16/13 that he believes Congress could reform the Affordable Care Act to allow for a single-payer system, according to Yahoo! News.
2. When asked if he meant eventually doing away with insurance-based coverage, Senator Reid replied, "Yes, yes. Absolutely, yes." The idea behind this approach is that insuring an additional 30 million people can further reduce costs.
3. The red line in the chart represents the S&P 500 Managed Health Care Index. The sharp decline from 7/07 through 7/08 and beyond reflected how investors responded to the notion of a single-payer system when it was first floated.
4. We have noted in the past that, in our opinion, the Affordable Care Act is about who will be paying for health care costs, while the biotechnology industry holds the true key to potentially reducing health care costs.
5. In 2010, 69.0% of all health care spending went to hospital-related health services, particularly surgeries, and to doctors and other health professionals. Drugs and medical devices accounted for only 15.4% of total costs in 2010.
6. That percentage spent on hospital-related services and doctors/health professionals is only down marginally from 74.4% in 1970, according to the Centers for Medicare and Medicaid Services.
7. The key to controlling costs lies, in our opinion, in the development of new medicines targeting the toughest diseases. With an ever expanding aging population, perhaps the best way to curtail costs is to keep people out of hospitals.
8. There are more than 5,000 medicines in the biopharmaceutical pipeline globally and around 70% of them are potential first-in-class medicines, according to the Analysis Group and PhRMA. The pipeline is deep.
9. From 7/07-7/13, the NYSE Arca Biotechnology Index posted an annualized total return of 19.40%, compared to 6.17% for the S&P 500 Managed Care Index.
10. Based on Senator Reid's recent comments, we encourage investors to take a hard look at biotechnology stocks, if they haven't already.

This chart is for illustrative purposes only and not indicative of any actual investment. The illustration excludes the effects of taxes and brokerage commissions or other expenses incurred when investing. Investors cannot invest directly in an index. The NYSE Arca Biotechnology Index is an equal-dollar weighted index designed to track a cross section of biotech companies that either develop products or provide services. The S&P 500 Managed Health Care Index is a capitalization-weighted index comprised of insurance providers.