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# Biotech selloff could be harbinger Of further decline

NEW YORK | BY ANGELA MOON

Biotechnology stocks suffered their worst day since October 2011 on Friday, raising questions among investors whether the sector is finally running out of momentum.

The selloff started early, following news that U.S. lawmakers have asked Gilead Sciences Inc (GILD.O) to explain the \$84,000 price tag of its new hepatitis C drug Sovaldi, which is encountering resistance from health insurers and state Medicaid programs.

The Nasdaq biotechnology index .NBI fell 4.4 percent to 2,577.21, closing below its 50-day average for the first time since November 2013. In less than a month, the index posted daily declines of more than 2 percent four times.

"Once the Congress gets involved, there is a risk for the whole sector, especially if the focus of the action is primarily on pricing," said Tim Ghriskey, chief investment officer of Solaris Asset Management.

That could be problematic for biotech, a sector that has jumped more than 250 percent over the past five years. Investors in the options market have shifted activity to bets on further gains in the last year, and more analysts have buy ratings on biotech names than any other sector.

"The sector has also gotten more vulnerable after this huge rally and with valuations above historic averages," there is going to be selling pressure for at least several weeks, Ghriskey said.

Options trading in Gilead Sciences jumped three times the recent daily average, with \$65 puts that expire in January and \$67.50 puts that expire in April among the top three trades of the day. The stock closed down 4.6 percent to \$72.07.

The iShares Nasdaq Biotech exchange-traded fund (IBB.P) plunged 4.3 percent to \$246.98 on Friday on 5.4 million shares traded, tripling the average daily volume over the past 50 days. Options in that ETF were also active, with trading volume nearly three times the recent average.

Short interest in the top 10 performers in the biotech sector in 2014 stood at about 6.2 percent on average as of end of February, according to data compiled by Reuters, higher than the total cumulative short interest on the S&P 500 components which surged to 4 percent, the highest since mid-2012.

"The biotechs are getting hammered because they have been a decent performer, so that is an area that people are using for cash. They are raising some cash and they are taking it out of sectors that have performed the best," said Ken Polcari, director of the NYSE floor division at O'Neil Securities in New York.

Despite the recent decline, the biotechnology sector is still up nearly 9 percent for the year, significantly higher than the 2.4 percent gain for the Nasdaq. The biotech sector has risen in five straight years, for a total gain of 253 percent.

A study looking at options activity in the top 50 biotech performers in 2014 shows fewer bearish bets placed compared to a year ago. That suggests sentiment has grown more positive as investors are more fearful of missing gains than protecting against losses.

"We all talk about how much run the sector has had over the past couple of years but the reality is, there is still a lot of optimism out there," said Ryan Detrick, senior analyst at Schaeffer's in Cincinnati, Ohio.

Schaeffer's Open Interest Ratio (SOIR), which calculates the put-to-call ratio of options expiring in the next three months showed an average reading of 0.974 for the top 50 biotech performers this year in the Russell 3000 that have active options trading.

This was much lower than 1.628 a year ago, according to data compiled by Bespoke Investment Group and Schaeffer's Investment Research.

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The biotech sector also had the highest buy rating out of 38 sectors followed by Schaeffers, with 66 percent of the analysts saying biotech stocks are still a good buy. Only three others had more than 60 percent buy ratings - financials with 64 percent, social networking with 63 percent and electronics with 62 percent.

(Additional reporting by [Chuck Mikolajczak](#); editing by Andrew Hay)

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30-Year Fixed Refi	3.80%	4.02%
15-Year Fixed Refi	2.98%	3.10%
5/1 ARM Refi	3.16%	3.37%
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