

Interim Update August 6, 2013 GT1409 TSX Comp 12553 DJII 15498

**Just to review – Dominant Theme investing or embracing “The next big thing.”**

In the 1960's the “**next big thing**” was the junior oil & gas play in western Canada and Alaska. In the 1970's the price of gold ran from \$100 to \$850. The “Nifty Fifty” stocks got their notoriety in the 1960's and early 1970's when stocks such as Avon, Gillette, McDonalds, Polaroid, Xerox, IBM and Disney boomed. In the 1980's the PC was born and the shares of Apple, Atari and Commodore skyrocketed. Many “new economy” companies emerged, Intel, Microsoft and Wal-Mart Stores. In the late 1990's the Internet or .COM boom ended abruptly with the exponential price spikes in the shares of Cisco, JDS, Netscape, Nortel and Sycamore Networks.

In a Getting Technical BI-WEEKLY UPDATE of December 15, 2005 # GT1194 we identified the **Aerospace** sector to be a new and emerging Dominant theme. We focused on Bombardier (\$2.76), Boeing (\$70.24) and Honeywell (\$37.25). The sector was again reviewed BI-WEEKLY UPDATE March 31, 2006 GT1204

**The Life Sciences Story** was also identified as a probable “next big thing” in several Getting Technical letters in 2003 through 2005. The Life Sciences Companies span a range of industries such as Pharmaceuticals, Healthcare Services and Supplies, Healthcare Facilities & Equipment and Biotechnology. Currently in Canada the heaviest weight of the group is Biotechnology.

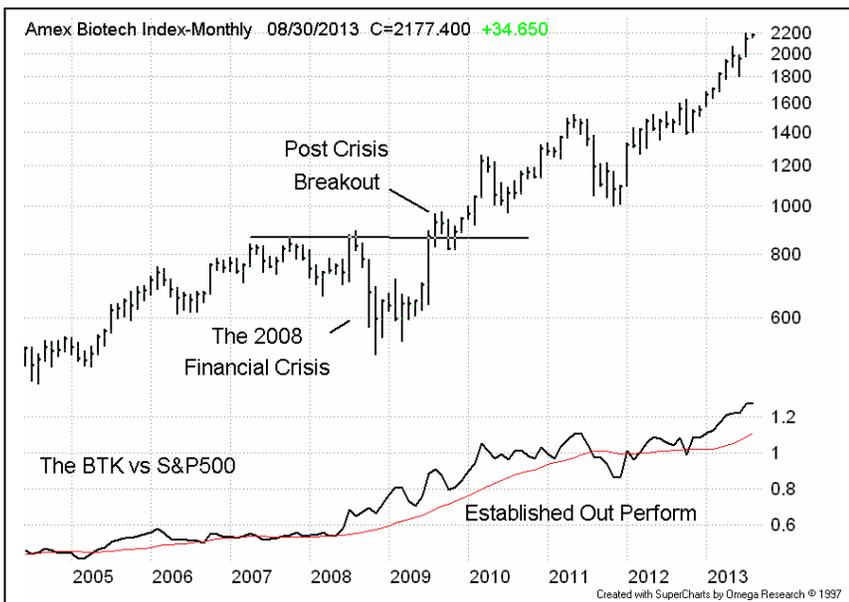
The Biotechnology Story is not new, the late eighteenth century and the early nineteenth century saw the advent of vaccinations, and crop rotation involving leguminous crops. The end of the nineteenth century was a milestone of biology as microorganisms were discovered; early pioneers were Mendel, Koch, Pasteur, and Lister.

In 1977 a public company Genentech, Inc., reports the production of the first human protein manufactured in a bacteria: a human growth hormone-releasing inhibitory factor. For the first time, a synthetic, recombinant gene was used to clone a protein. Many consider this to be the advent of the Modern Age of Biotechnology.

Over the past 30 years there have been several boom and bust cycles in the sector primarily related to the ability to raise venture capital and the broader market conditions. Historically the group was very market sensitive as the sector has a high correlation the regular 4 1/2 year bull and bear market cycle.

**In Canada** there are only 4 constituents in the S&P/TSX Capped Health Care Index, namely Catamaran Corporation (CCT), CML HealthCare Inc. (CLC), Extendicare Inc. (EXE) and Valeant Pharmaceuticals International, Inc. (VRX). The index is dominated by Valeant which is by far the biggest TSX listed health care related company

We now prepare to acquire a new smaller company Biotech Focused Trading Basket - see page 3



**Biotechnology – the loner term**

The AMEX Biotech index is an equal dollar weighted index designed to measure the performance of a cross section of companies in the biotechnology industry. The BTK (left) has been a sector outperform since the financial crisis of 2007 – 2008.

The investable clone is the iShares Nasdaq Biotechnology ETF (IBB) which is a 77 % weight of large cap biotech companies.

The top weighted stock in the IBB is Celgene Corporation (CELG) (\$142.00) which is twice the size of our own Valeant Pharmaceuticals.

**TSX Listed Life Science Co's sort by capitalization**

Name	Symbol	Mkt Cap	Close 6-Aug-13
Valeant Pharmaceuticals Int'l	VRX	30,122,464,526	\$99.05
Paladin Labs Inc.	PLB	1,103,306,943	\$56.59
CML HealthCare Inc.	CLC	950,274,843	\$10.65

These smaller names are the subject of our money flow studies.

Patheon Inc.	PTI	821,835,747	\$5.69
Novadaq Technologies Inc.	NDQ	673,367,946	\$13.98
Atrium Innovations Inc.	ATB	559,075,857	\$15.21
Nordion Inc.	NDN	481,652,806	\$7.75
TearLab Corporation	TLB	325,641,593	\$13.06
Oncolytics Biotech Inc.	ONC	255,971,630	\$2.90
QLT Inc.	QLT	236,264,025	\$4.41
Medicago Inc	MDG	211,471,571	\$1.15
Neptune Technologies & Bio	NTB	204,974,179	\$4.21
ProMetic Life Sciences Inc.	PLI	159,513,402	\$0.49
IMRIS Inc.	IM	150,421,710	\$2.93
Cangene Corporation	CNJ	143,505,771	\$2.20
Cipher Pharmaceuticals Inc	DND	116,140,873	\$7.37
Trimel Pharmaceuticals Corp	TRL	106,773,669	\$0.88
Transition Therapeutics Inc.	TTH	90,994,001	\$4.54
Centric Health Corporation	CHH	84,500,031	\$0.54
Tekmira Pharmaceuticals Corp	TKM	69,799,586	\$5.90
Helix BioPharma Corp.	HBP	65,881,810	\$1.05
AEterna Zentaris Inc.	AEZ	49,640,442	\$1.50
Sophiris Bio Inc.	SHS	45,862,097	\$0.24
TSO3 Inc.	TOS	44,461,791	\$0.67
OPMEDIC Group Inc.	OMG	38,695,702	\$2.22
Spectral Diagnostics Inc	SDI	37,114,017	\$0.40
IntelliPharmaCeutics International	I	35,499,487	\$2.13
Bioniche Life Sciences Inc.	BNC	34,778,136	\$0.33
Cardiome Pharma Corp.	COM	25,439,490	\$2.15
GeneNews Limited	GEN	22,946,520	\$0.71
Amorfix Life Sciences Ltd.	AMF	21,390,273	\$0.31
CRH Medical Corporation	CRH	19,498,766	\$0.62
Theratechnologies Inc.	TH	18,913,287	\$0.36
GLG Life Tech Corporation	GLG	18,219,630	\$0.72

These names are excluded from study due to liquidity issues.

Resverlogix Corp.	RVX	17,227,647
Response Biomedical Corp.	RBM	15,128,627
Northstar Healthcare Inc.	NHC	14,493,492
Microbix Biosystems Inc.	MBX	13,670,292
Nuvo Research Inc.	NRI	13,118,742
BELLUS Health Inc.	BLU	12,805,117
DiagnoCure Inc.	CUR	9,684,106
Lorus Therapeutics Inc.	LOR	8,872,727
Adherex Technologies Inc.	AHX	8,050,516
Isotechnika Pharma Inc	ISA	6,750,494
Noveko International Inc.	EKO	2,487,820
Allon Therapeutics Inc.	NPC	705,507

**The current life TSX listed science issuers are displayed in the table to the left**

Life Science exposure in Canada is limited to stock selection because there is currently no exchange traded fund replicating the TSX Health Care Index.

The 46 TSX listed selections listed to the left are sorted by market weight or capitalization.

At 30 billion \$ Valeant is the super nova of the sector. There are only 5 other issuers with a market cap greater than 500 million \$.

**Observations:**

The selections to the left currently appear to have little price correlation to the broader TSX Composite Index.

The selections are also extremely volatile due to their small share float and the tendency of large volumes of capital flowing in and out of the names in response to news on clinical trials and licensing deals.

There is high risk in the individual names which can be diversified (somewhat) away by the selection of at least 5 names.

A probable 6-month outcome could be 2 winners, 2 losers and one break even.

**Strategy:**

We will employ a "follow the money" study on each name and restrict the selections to those with reasonable liquidity.

The two top names, Valeant Pharmaceuticals and Paladin Labs are excluded due to price and capitalization weight.

Excluded are the micro-cap names due to liquidity and volatility issues.

## The two new Health Sciences focused trading baskets – A hold until stopped out

They are grouped into two baskets – Tier One selections with reasonable liquidity and Tier Two with limited liquidity. The selections below are risky and volatile - some may not survive. One of them may be the next Celgene Corporation (CELG) or Valeant Pharmaceuticals.

Strategy: Do not place a big bet on one issue. We will maintain continual exposure to the group until stopped out or a re-balance due to extreme price changes.

Names that are stopped out may be replaced with a new prospect. Winners will be retained and trailing stops will be maintained until stopped out. The buy-in price will be at the close of Friday August 9, 2013.

### Canadian Health Sciences selections 1<sup>st</sup> tier selections

Name		6-Aug-13	Avg Vol	Category
Cipher Pharmaceuticals Inc.	DND	\$7.37	106000	Pharmaceuticals
IMRIS Inc.	IM	\$2.93	21000	Health Care Equipment
Neptune Technologies & Bio	NTB	\$4.21	64000	Pharmaceuticals
Patheon Inc.	PTI	\$5.69	40000	Pharmaceuticals
ProMetic Life Sciences Inc.*	PLI	\$0.49	400000	Biotechnology
Tekmira Pharmaceuticals *	TKM	\$5.90	23000	Pharmaceuticals

### Canadian Health Sciences selections 2<sup>nd</sup> tier selections

Name		6-Aug-13	Avg Vol	Category
Acasti Pharma Inc. **	APO	\$4.00	16000	Pharmaceuticals
Helix BioPharma Corp.	HBP	\$1.05	5000	Pharmaceuticals
Novadaq Technologies Inc.	NDQ	\$13.98	7000	Health Care Equipment
Spectral Diagnostics Inc.	SDI	\$0.40	63000	Biotechnology
TearLab Corporation	TLB	\$13.06	9000	Health Care Equipment
Transition Therapeutics Inc.	TTH	\$4.54	6000	Biotechnology

\*GT has direct ownership

\*\* Venture Exchange

### Use one of two stop loss systems:

The Average True Range Stop:

On the sell side we know that up trends can persist for several weeks and quarters. However if investors turn negative on a name we can rely a True-Range stop loss discipline. The True range is a measure of volatility that will set a trailing stop outside of the stock's natural trading range. We use Weekly data for investment stops and Daily data for trading stops.

The True Range is then smoothed to calculate the ATR.

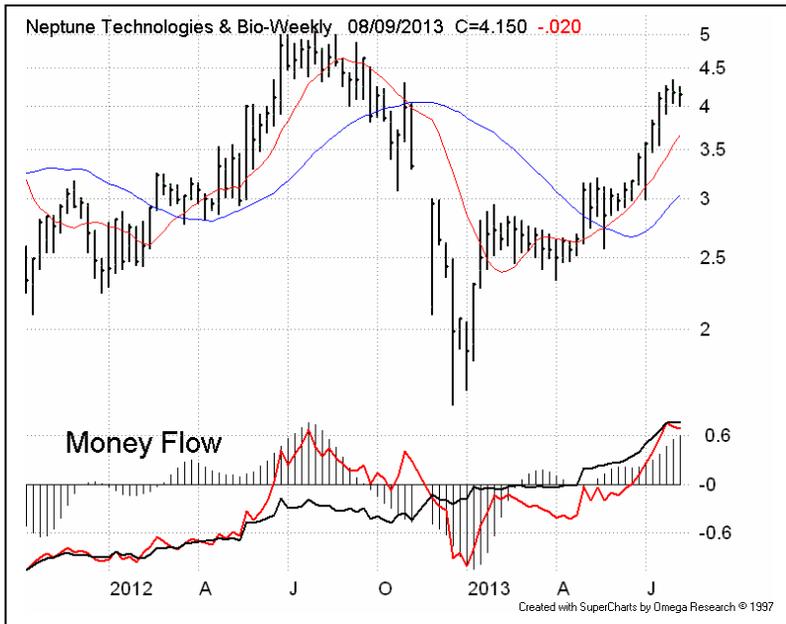
The Average True Range (ATR) is the greatest distance of any of the following - The distance from today high (CH) from today low (CL) or - the distance from yesterday close (C[1]) to today high (CH) or The distance from yesterday close (C[1]) to today low (CL).

$$\text{The formula - ATR} = \text{Average} (\text{MAX} (\text{CH} - \text{CL}, \text{C}[1] - \text{CH}, \text{C}[1] - \text{CL}), 10)$$

The Lowest Ten Week Low Stop:

This is a simple and yet effective sell strategy. All we need to know is the lowest 10-week low over a moving 10-week window. The sell is signalled on a weekly close below the moving 10-week lowest low.

Some rules: Stops are never lowered. We never average down. Mental stops only – never use system stops..

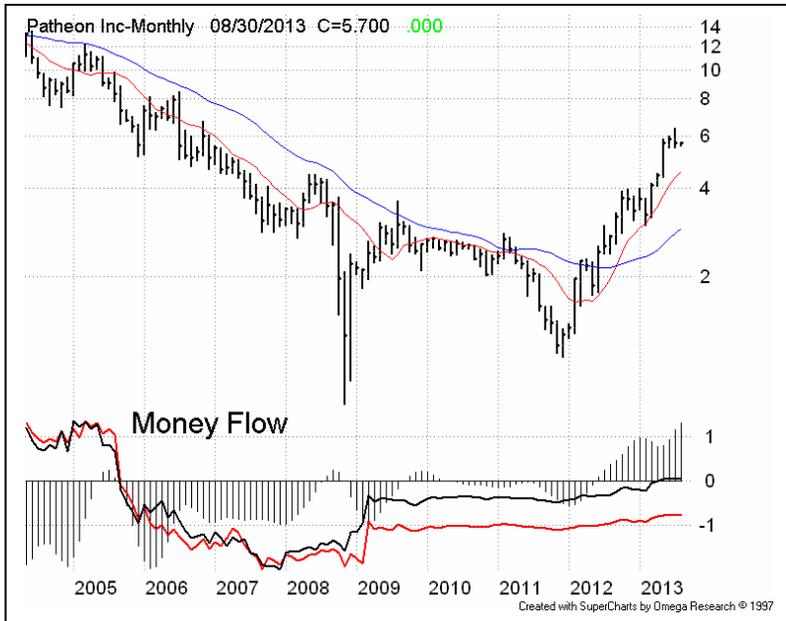


**Some First Tier Canadian Health Sciences Selections**

All rising Money Flow Numbers

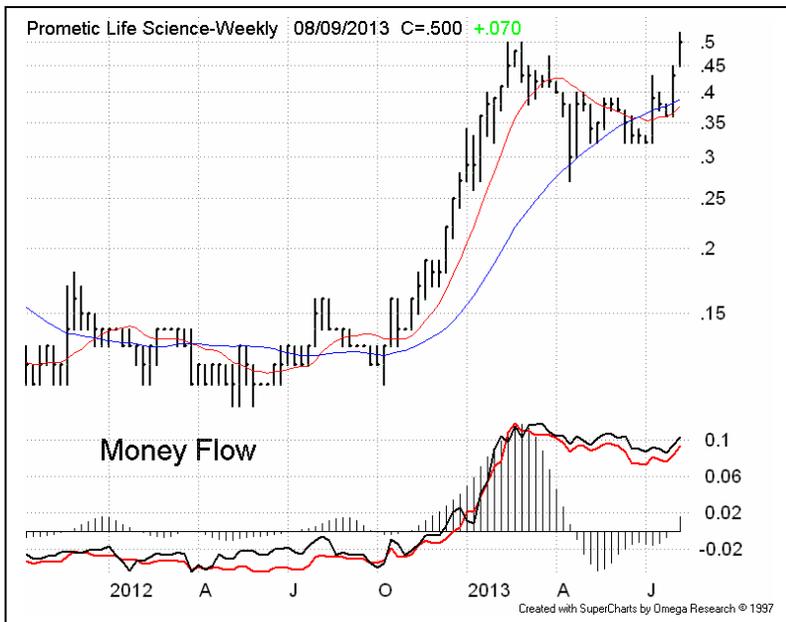
**Neptune Technologies & Bioresources Inc.** is a biotechnology company engaged in the development, manufacture and commercialization of marine-derived omega-3 polyunsaturated fatty acids.

See top chart left



**Patheon Inc** is a provider of commercial manufacturing outsourcing services and outsourced pharmaceutical development services to the pharmaceutical industry.

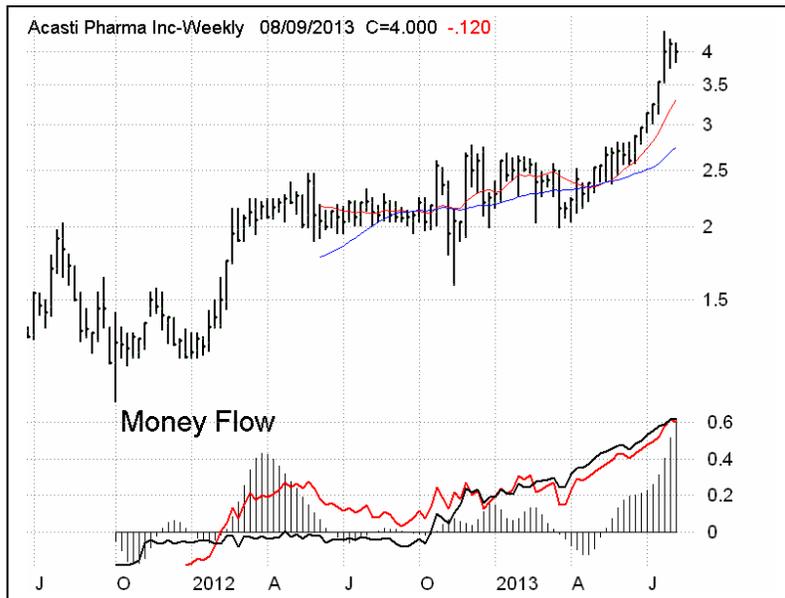
See center chart left



**ProMetic Life Sciences Inc** is comprised of a group of subsidiaries, specialized in the design of small chemical molecules that mimic unique and specific interactions between proteins.

See chart bottom left

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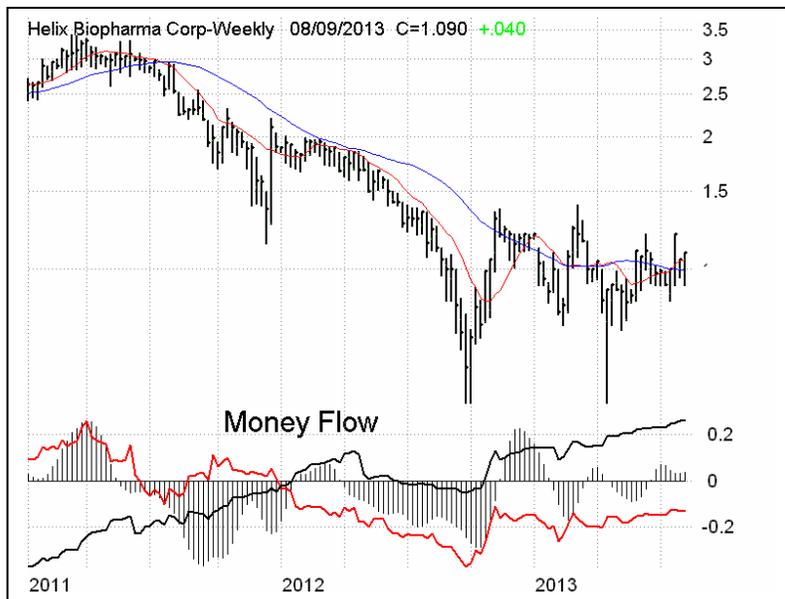


### Some Second Tier Canadian Health Sciences Selections

All rising Money Flow Numbers

**Acasti Pharma Inc** is engaged in the research, development and commercialization of proprietary active pharmaceutical ingredients mainly applied in the management of cardio metabolic disorders.

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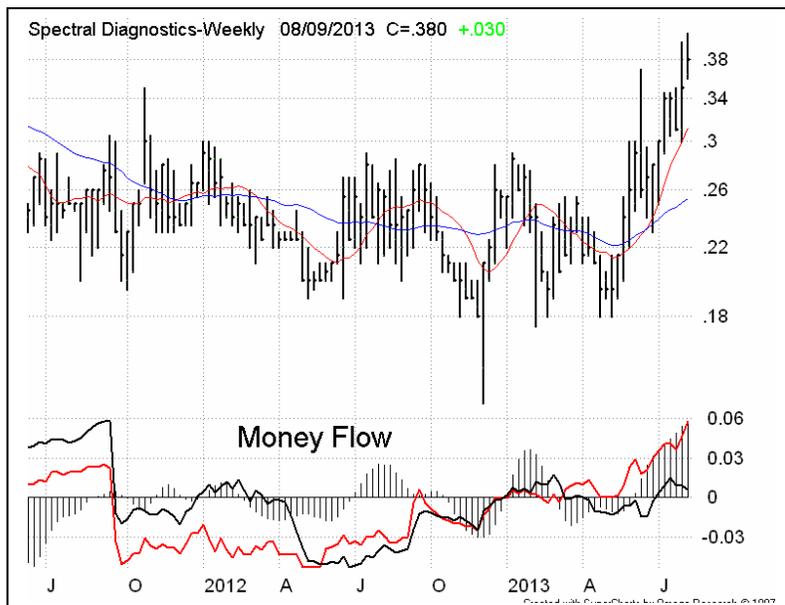


**Helix BioPharma Corp.** is a biopharmaceutical Company engaged in the field of cancer therapy and developing products for the treatment and prevention of cancer based on its proprietary technologies.

See chart center left

Spectral Diagnostics operates in the in-vitro diagnostic testing market. The company focuses on the development of diagnostic tests that provide critical information for the early identification of life-threatening disease.

See chart bottom left



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GettingTechnical 3823 Brookside Dr Vineland, Ontario. L0R 2C0 E-mail info@gettingtechnical.com