The 50% Healthcare Index Dip and a Silver Lining

Description

Even though individual institutions and the healthcare sector as a whole saw more activity in the last two months than many pre-pandemic years put together, that didn't reflect in the sector's performance. The **S&P/TSX Capped Health Care Index** actually fell harder compared to most other indexes. The 47% fall didn't recover until later in 2021, following the momentum of the rest of the market.

So, the premise that the pandemic did anything to boost the growth in the healthcare sector appears to be wrong. However, the sector is following the pattern of correction after a rapid growth after market crash, and following that pattern, it has already dipped almost 50% from its 2021 peak. And the silver lining is the same as it is with the other sectors that have displayed the same pattern — i.e., stocks on discount.

In the case of the healthcare sector, two stocks to consider are **BELLUS Health** (TSX:BLU) and **Profound Medical** (TSX:PRN).

A pharmaceutical company

Bellus Health is a pharmaceutical company. Unlike typical pharmaceutical companies that mass produce medicine used by consumers — and with a business model that is easy enough to comprehend, since it follows the same supply-demand principle — Bellus focuses on the clinical stage of drug development.

The company is currently working on one particular antagonist and researching it for the alleviation of chronic cough and a type of pruritus. If it's found successful and gets the right approval, it can be used to develop two different lines of medicine: one for ingestion and one for topical application.

But the two major questions with such a company are *if* and *when*. The company might have a hidden gem in its possession or a multi-million-dollar failure, which makes it a high-risk, high-reward investment that is currently trading at a 52% discount from its pre-pandemic peak.

A medical technology company

Profound Medical is a medical technology company focused on incision-free ablation. The company has two trademark technologies to its name. One of them has already received 510(k) clearance from FDA, and the other is approved by the Chinese FDA. It has partnered with **Phillips**, **GE**, and **Siemens** for the development of its technology and equipment.

The company has targeted some of the most common procedures with its technology, so it's not exactly a niche market or technology. And the benefits of the incision-free intervention and procedure the company's technologies promise also come with far fewer side effects than surgical intervention does.

The company has two market-ready products on its hand, and as soon as its sales gain traction, the stock might see amazing growth. This healthcare stock, mimicking the sector, is also currently available at a 50% discount.

Foolish takeaway

The healthcare stocks have more in-sector diversity than most other sectors, and the stocks move more independently compared to other sectors. Few healthcare companies might rise contrary to the broader sector, and they might dip when the sector is moving up. This presence of the contrarian stocks within the sector gives you more options and a way to make a profit when the broader market is triggering losses.

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