



DIABETIC INVESTOR

December 2000/January 2001
Issue #22

“Make the Connection” David Kliff, Publisher

Down almost 40% for the year, the Nasdaq is headed for its worst performance in its history. The Dow 30 is down 6% and the S&P 500 is off over 10%. So why are readers of Diabetic Investor smiling? PolyMedica is up

SIGNIFICANTLY OVER THE MAJOR MARKET INDICES!!!!

And let’s not forget about Inverness Medical, which DI recommended back in August when it was trading at \$14.75 per

question is, will the diabetes sector of the market continue this outstanding performance? Without question I say the answer is yes and here’s why:

The Bush administration will likely favor

ALL OF THE MEMBERS OF THE MODEL PORTFOLIO ARE NOT ONLY SHOWING POSITIVE RESULTS, BUT ALL ARE UP SIGNIFICANTLY OVER THE MAJOR MARKET INDICES!!!!

101.57%, MiniMed is up 29.32%, Lilly is up 35.74%, Johnson and Johnson is up 10.97%, Novo Nordisk is up 37.72%. Year to date, **ALL OF THE MEMBERS OF THE MODEL PORTFOLIO ARE NOT ONLY SHOWING POSITIVE RESULTS, BUT ALL ARE UP SIG-**

share. As of Friday December 29th, shares of Inverness closed at \$38.94, racking up a whopping gain of 164% since being recommended by Diabetic Investor.

As we head into a new year with a new administration the key

market based health-care reforms rather than government-imposed reforms. A clear indication of this came when President elect Bush nominated Mitch Daniels, a senior vice president of Eli Lilly, as his director of the Office of Management and

What’s Inside This Issue

Make the Connection-

A look back and a look ahead- The year 2000 was filled with many surprises, some positive, some negative. DI puts the year in perspective and gazes into future.

Is this the time to buy or should caution rule the day? DI provides an outlook for all the members of the Model Portfolio- Will 2001 be as good as 2000?

Next Month-

2001 looks to be an interesting year in the glucose meter market. DI takes an in-depth look at the changes taking place and what it means for investors.

We’ll also take a look at some of the new products that will be making waves in the new year.

Budget.

Concerns of a recession and a slowing economy normally favor health-care stocks. Traditionally, in times of economic slowdowns, investors favor companies whose businesses are less affected by economic cycles.

Healthcare companies fall into this category. The theory is that no matter what is going on economically, people still need to take their medications.

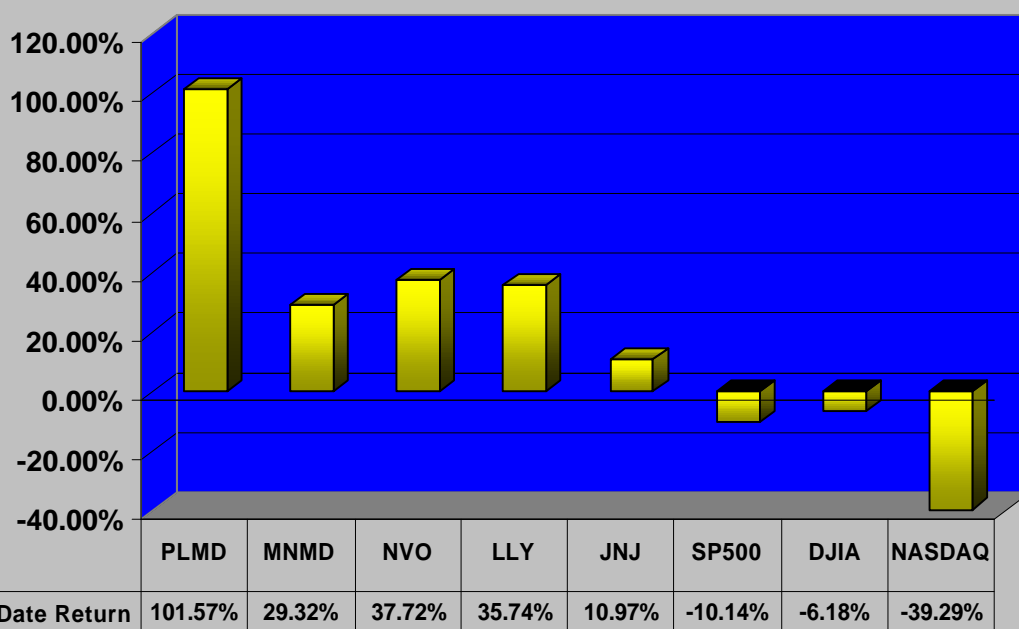
Journal ran an article on the recent approval of the diabetes drug Starlix. The article states, “Public-health officials in the U.S. view diabetes as a public health crisis, because its prevalence has soared during the past decade”. The bottom line is Wall Street is waking up to a fact that readers of Diabetic Investor have known all along - diabetes is a growth industry.

Finally, it’s almost a virtual certainty

economy is merely going into a slower growth rate and not falling into a recession. Recently outgoing Treasury Secretary Lawrence Summers appeared on MSNBC and stated that he believed that although the growth rate of the economy may not be the 5 to 6% rate of the past, it still will be in the more traditional range of 2 to 3% growth. With the Senate evenly divided between Democrats and Republicans and the Republicans holding a slim margin in

the House, it appears likely that the first test of the new administration will be gaining a consensus on what, if anything, needs to be done in terms of tax cuts and budget priorities. How this battle plays out will go a long way towards determining the future health of the economy. Like or hate President Clinton, one thing he did well was managing the economy. We can only hope President elect

Diabetic Investor Model Portfolio Vs. The Major Market Indices



Technology stocks have been particularly hard hit, leaving investors weary of this sector. Healthcare companies are viewed as a safe haven for investors for the reasons outlined in point number two. Healthcare stocks did well in 2000 and investors typically play the hot hand.

Most importantly, the diabetes sector has gained a newfound popularity with investors because of the tremendous growth rate of the disease. Back on December 27th, the Wall Street

that the Federal Reserve will begin lowering interest rates early in the new year, something that’s always well received by investors.

Even with all these positive elements, there are reasons for concern. The biggest concern is just how will the new administration handle the economy? After a record long economic expansion, President elect Bush has indicated that the economy is headed for a recession and something needs to be done. Yet, members of the outgoing administration believe that the

Bush has similar results.

A look back and a look ahead for the members of the Diabetic Investor Model Portfolio:

PolyMedica (PLMD) Return in 2000 +101.57% Recommendation for 2001: BUY

Without question shareholders of PolyMedica have experienced the most volatility this year. After hitting \$62 per share back in November, the

company was stung by a vicious article in Barron's. The article claimed that PolyMedica was the subject of an FBI investigation for possible Medicare fraud. Response to the article was swift and severe, as shares of PolyMedica fell over 50% in just one day.

Using the Freedom of Information Act, Diabetic Investor wrote the FBI to see if these allegations were true. To date, two of the FBI offices named in the article, Tampa and Chicago, have responded in writing, with both stating that POLYMEDICA IS NOT THE SUBJECT OF AN FBI INVESTIGATION. When I approached the managing editor of Barron's with both letters, he claimed that Barron's did check their sources and that the FBI was not telling the truth. Although he could not explain what possible motive the FBI would have for lying, he was quite surprised that the FBI publicly stated that the company was not the subject of an investigation.

Even before Diabetic Investor

received the letters from the FBI, we believed that PolyMedica had done nothing improper. However, this comes as little comfort to shareholders who saw the value of their shares sink faster than the Titanic. Unlike the Titanic, shares of PolyMedica will rise again and we see this as a golden buying opportunity. Here's why:

Even before Diabetic Investor received the letters from the FBI, we believed that PolyMedica had done nothing improper. However, this comes as little comfort to shareholders who saw the value of their shares sink faster than the Titanic. Unlike the Titanic, shares of PolyMedica will rise again and we see this as a golden buying opportunity.

Earnings- On December 26th, PolyMedica announced that it is increasing its earnings per share estimate for the third fiscal quarter end-

ing December 31, 2000 to \$0.55-\$0.56 per diluted share, up from its earlier estimate of \$0.53-\$0.54. Look for future earnings announcements to be equally bright.

Their customer base continues to grow. Every major study confirms what PolyMedica already knows; the number of seniors with diabetes is the fastest growing segment of the diabetes market.

Brand name recognition- Effective use of both TV and radio advertising has built the Liberty Medical Supply Company into the most recognized and trusted brand in the senior market.

Lack of a major competitor- While there are several companies who do the same thing as Liberty, none have the size or brand name recognition of Liberty.

Systems- Liberty has spent millions developing and upgrading their systems, making them an extremely efficient and profitable operation. Systems that not only deal directly

Make the Connection continued on page 4

Model Portfolio Update

Company	Purchase Price	Current Price	% Change Year to Date	% Change From Last Issue	% Change Since Inception
MiniMed	\$13.69	\$42.03	29.32%	-36.08%	207.01%
PolyMedica	\$10.44	\$33.38	101.57%	14.12%	219.73%
JNJ	\$72.50	\$105.06	10.97%	8.24%	44.91%
Lilly	\$69.56	\$93.06	35.74%	4.86%	33.78%
Novo	\$110.00	\$88.50	37.72%	-4.07%	-19.55%

Note- Novo's % Change Year To Date is based on Novo's closing price 12/31/99.

with the government but can also be utilized with private insurance companies, should Liberty take that direction.

Brand extension- Look for Liberty to add to its stable of co-branded or private label products. In particular, look for Liberty to introduce some new glucose meters that carry the Liberty brand name. As regular readers know, the market for meters and test strips is the cash cow of the diabetes market.

MiniMed (MNMD) Return in 2000 +31.48% Recommendation for 2001: BUY

Like many companies in 2000, an earnings disappointment hit the shares of MiniMed hard. Missing their third quarter analyst estimates by a mere penny, shares of MiniMed tumbled and have yet to fully recover as investors worry over the possibility of future earnings disappointments. Although we don't see shares of MiniMed capturing the multiple they have in the past, we do see this as a solid buying opportunity.

The main reason is that MiniMed is moving closer to developing a closed loop system that will incorporate both a glucose meter and an insulin pump. The company has already demonstrated the benefits of continuous glucose readings and recently announced the initiation of human clinical trials of a long-term implantable glucose sensor developed by an affiliated company, Medical Research Group, Inc. ('MRG'). Once fully developed, this closed loop system could revolutionize the treatment for people who are insulin dependent.

Novo Nordisk (NVO) Return in 2000

+38.69% Recommendation for 2001: HOLD

The strength of Novo Nordisk lies in the completeness of their diabetes portfolio. Few companies can claim to have both a strong product line and an equally strong pipeline of new products. Novo has both.

Novo is the only member of the model portfolio to appear, be removed, and then reappear. When we removed the company from the Model Portfolio back in 1999, we questioned their commitment to the U.S. market. While Novo enjoyed an excellent reputation overseas, they seemed ill equipped for the highly competitive U.S. market. Gladly for shareholders, the company has solved their problems and now looks to tackle the U.S. market head on. The best example of this is Novo's decision to market insulin with the U.S. largest retailer, Wal-Mart.

Lilly (LLY) Return in 2000 +31.18% Recommendation for 2001: HOLD

With the introduction of the type 2 drug Actos earlier this year, Lilly continues to be a leader in the diabetes arena. The main concern for Lilly is what strategy will they pursue in what is becoming a highly competitive insulin market. Not only is Novo Nordisk making a major push into the U.S. market, but new competitors loom on the horizon. Although insulin is not viewed as a commodity, it's not outside the realm of possibility that a price war could develop as each player fights for market share.

Johnson and Johnson (JNJ) Return in 2000 +8.14% Recommendation for 2001:HOLD

It remains to be seen how effective Lifescan will be in regaining lost market share. Competitors, in particular Roche, won't go quietly into the night, and the increased popularity of private label and co-branded meters will clearly make 2001 one of the more interesting years in the meter market.

A perspective on the diabetes sector as we head into the New Year:

With the epidemic growth rate of diabetes, one thing is clear: this sector of the market will garner even more attention in 2001. As shareholders in PolyMedica learned this year, attention isn't always a good thing. Irresponsible journalism aside, DI sees 2001 as a good year for the sector.

From a personal perspective, I want to thank all of our subscribers. 2000 brought many surprises, both positive and negative. I'm looking forward to providing you with the most accurate and unbiased information so that you can make informed investment decisions. Have a happy, healthy and prosperous New Year.

Published monthly by

Diabetic Investor, Inc.
165 Arlington Heights Rd.
Suite 190
Buffalo Grove, Illinois 60089
Phone: 800-783-3712
Fax: 847-229-1430
e-mail-info@diabeticinvestor.com

Diabetic Investor accepts Visa, MasterCard, American Express and Discover