

June 20, 2008, 3:01 pm

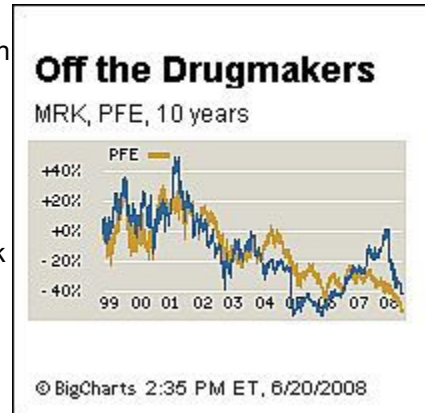
Big Pharma's Big Slump

Posted by David Gaffen

The list of prominent stocks in the Standard & Poor's 500-stock index that have reached multi-year lows in the past week include a few of the usual suspects, such as banking giant [Bank of America Inc.](#) and beleaguered automaker [General Motors Inc.](#)

But large pharmaceutical companies, such as Dow components [Pfizer Inc.](#) and [Merck & Co.](#), are also included in that list, and **that may seem odd in a defensive environment such as this**. Investors frequently look to pharma companies as among safer plays because consumers need prescription drugs regardless of the economic environment.

Pfizer Inc. fell to an 11-year low in trading Friday, while Merck earlier in the week traded at its worst levels since June of 2006, and what investors seem to be expressing is that **"the market is not buying the story" anymore**, says Bernie McGinn, head of Alexandria, Va.-based McGinn Investment Management, who owns shares of both companies.



The big-name drugmakers have been struggling amid patent expirations, which will pave the way for more generic competition. One of the more lucrative markets for the big drugmakers has through medications that improve cholesterol levels, but the U.S. Food and Drug Administration has sought to become more stringent on these medications.



Two months ago, Merck's proposed treatment was rejected by the FDA, and it hit another snag Friday, **after regulators asked for more information about the drug's effectiveness**. And a medical journal recently published news of a study saying these treatments can be less effective in people who have certain gene variants.

"That's a pretty big revenue source for a lot of names," says Bill Schultz, chief investment officer at McQueen, Ball & Associates in Bethlehem, Pa.

Pfizer was the recipient of a bit of good news regarding its Lipitor drug — the company settled litigation with generic drugmaker Ranbaxy this week that will allow Pfizer to continue to market the drug for two more years. To Mr. McGinn, the fact that it takes news of this type to move the stock higher (shares rose for a bit on Wednesday on the report, but then pulled back) suggests how much work these companies have to do — more likely through partnerships with biotechnology firms.

"I saw what that did to Pfizer's stock and that shows you how focused the market is on that issue," he says. "Pfizer is partnering every day with something new and they're planting seeds, but there are no sprouts yet, so nobody believes there are going to be sprouts."

[Permalink](#) | [Trackback URL: http://blogs.wsj.com/marketbeat/2008/06/20/big-pharmas-big-slump/trackback/](http://blogs.wsj.com/marketbeat/2008/06/20/big-pharmas-big-slump/trackback/)