The vast majority of the stocks in the Medical Services Industry are higher in price than they were at the time of our December review, but that is not to say that the sentiment is improving. In fact, the onset of the Affordable Care Act (ACA) brought with it droves of investors; however, it appears everyone is now taking a wait-and-see approach. Thus, the bloated valuations of many of these equities have prompted a substantial drop in positioning among the *Value Line* industry rankings for Timeliness.

Criticism of the reform continues to mount and this was exacerbated by problems with the main Website for the launch of the legislation. Moreover, registration has not met the targets that many presumed it would. However, many of these initial bugs are gone, and registration figures are climbing at the moment. In short, the more Americans that have healthcare coverage the better for the subsectors of this scene: the clinical labs, the hospitals, and the health maintenance organizations (HMOs).

Many of these companies have made alterations to their respective business models and will have to grin and bear flat earnings this year in the hopes of firing up the growth engine again in 2015. Others are ahead of the game, or better positioned in their end markets, and have already begun to experience the initial benefits. What side of the fence an individual company is on will likely dictate its success or lack thereof in the coming months.

Share Repurchases For HMOs

The sector's heavy hitters, *Aetna* and *UnitedHealth Group* to name two, have come under some pressure of late with bears saying that any year-over-year profit growth will be hard to come by in 2014. The term "transition year" has been thrown around, which historically causes investors to take pause. We see the logic behind that train of thought, but that by no means leads us to hop on board. *Value Line* does not paint in such broad strokes, and we think that based on positionings within the market, there are gains to be had by the elite performers.

Still, we get that leadership teams do not like to deal in uncertainties. With that, many companies are putting their growing cash balances to use in the form of stock buybacks that are viewed as votes of confidence by the investment community. Truth is, these moves are probably an effort to cushion and/or secure some bottom-line growth for this year. *Aetna* is the latest firm to announce a sizable repurchase plan. Indeed, it added $1 billion to a preexisting authorization. Critics would prefer increased dividend and investments in the future, but the buyback binge has persevered nonetheless. To its credit, *Aetna* announced a 13% hike in its quarterly dividend at the same time of the aforementioned disclosure.

For-Sale Signs At Many Labs

The clinical lab duopoly of *Laboratory Corporation of America* (LH) and *Quest Diagnostics* (DGX), are both in a rut, as utilization has fallen and some market share has been siphoned off by competitors with agreements with hospital chains. Although the share prices of these two entities have been beaten up, their leadership position in the subsector may lead to improved prospects when the dust settles from the reform.

INDUSTRY TIMELINESS: 61 (of 97)

Smaller players are on the brink of folding up shop. Reimbursements are set to decline from the government business and the changes brought about by the ACA. LH and DGX are the predators in this business, and will likely consume much of the business that comes for sale. Then, when business levels return to normal, a feat we see occurring sooner rather than later, the duopoly will grow even more powerful.

Bed Count Battle At Hospitals

Hospital operator stocks have held up the best of late, as the general consensus is that they will be relieved of the bad-debt situation that has haunted them for years. Too, a consolidation trend has swept through this field, so that when new patients show up with their shiny new healthcare cards, they can be serviced appropriately. *Tenet Healthcare* is an example of an aggressive player on this front. Its stock recently traded lower on a reduced 2014 outlook. We think investors are being nearsighted here.

Emergency rooms and equipment were spruced up in anticipation of reaping profits when this new day arrived, and now it is here. We should know very soon if these large expenditures will pay dividends. If things go wrong, these shares will fall swiftly.

Conclusion

Not surprisingly, many equities in this space are neutrally ranked for the year ahead, while several are trading within our 3- to 5-year Target Price Range for the pull to 2017-2019. Earnings Predictability over the next two-plus quarters will almost certainly take a hit, so we advise only the speculative look to get in at this point. Those that shun risk have probably missed the boat with regard to the Medical Services Industry, for now.

Now more than ever, we recommend subscribers thumb through each of the coming pages to see which issues, if any, best suits their investment profiles.

Erik M. Manning