Op-Ed: Uncertainty about health care legislation shouldn't scare investors away from the stocks

- After underperforming the overall markets since the presidential election season got underway in the summer of 2015, healthcare stocks have been on a tear lately.
- The economics of healthcare delivery are not being impacted, only how it is paid for.
- Very few downside scenarios for health care stocks unless Trump lets ACA totally fail or implements price controls.

Ardavan Mobasheri
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Health care stocks have been on a tear lately, after underperforming the overall markets since the presidential election season got underway in the summer of 2015. The sector's multi-year underperformance ended after a nose dive following the elections (likely on the fear of big changes coming to the Affordable Care Act).

As the "Trump Trade" began to fizzle out in late December to early January, and the difficulty of wholesale changes to the ACA began to percolate into the market's mindset, the sector found strength. Its recent outperformance is a signal that it is becoming abundantly clear that any GOP alternative that has a chance of passing will essentially be a "renaming" of ACA, far from a "repeal and replace" of it. That indeed is good news for the sector.

National health care legislation has been on the plate of every president and Congress since well before World War II without success until 2010. In fact, in recent years, even a discussion around setting such legislation at the federal level would have raised eye-brows in conservative circles and the Republican Party. So now that the GOP has finally come around the idea, an element of uncertainty has been removed. Whether it is the House bill recently passed that the president called "mean" or the Senate version which the GOP hopes to complete before the delayed August recess, as with the ACA, the economics of healthcare delivery are not being impacted, only how it is paid for.

At the end of the day when a medical service is provided, the total costs are distributed among four entities: the insurance provider, the individual via the deductible and what insurance does not cover, the government via subsidies, tax breaks, etc., and the medical institution providing the service in case none of the above three pays.

The number of different permutations on how to split 100 percent of the costs among the above entities is unlimited. But by giving one party less and one party more responsibility relative to a prior arrangement, you are not lowering the 100 percent, you are simply transferring the costs to other parties. The overall cost of medical care increases due to factors such as demographics, innovation, number of medical care professionals and institutions, etc., not who is involved in paying the costs and what their share of the total is. All the GOP is proposing is another permutation of how to split 100 percent of the costs. Very simple.

But what if the GOP fails to pass even a "re-naming bill" and pressure from the Tea Party prevents a compromise with Democrats on market stabilizing injections? That is a continuation of the status quo and uncertainty reducing, which should continue to be good for the sector.

So, then what could be a downside scenario?

The key is the White House. The president has repeatedly warned that if no resolution is found, it may just allow the ACA to implode. While technically the ACA can't and won't implode on its own, outside interference can create significant volatility in the system. For example, in lieu of a repeal of the individual mandate, the IRS could be asked to simply stop collecting penalties from individuals for not buying coverage, or stop funding subsidies. While the budgetary impact of such actions will be mixed, the affect on prices can be significant.

The real danger, however, lies in another threat: price controls. The president has in the past been very critical of the pharmaceutical industry and its pricing methods and has not been shy of mentioning controls. Could a populist president under pressure to deliver something concrete in his first year or two move in that direction either on a limited basis for a number of items or on a broader basis to cover some services or insurance rates even for a limited time? I wouldn't count it out. August 15th will be the 46th anniversary of executive order # 11615 from another republican president, Richard Nixon, imposing a 90-day freeze on prices, rents, wages, and salaries.

Ardavan Mobasheri is chief investment officer of ACIMA Private Wealth and adjunct professor at the Robins School of Business at the University of Richmond. He is the former chief economist at American International Group.

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