Two Inexpensive Ways to Trade the Biotech Boom

Sometimes, the greatest opportunities are hiding in plain sight.

Biotech and pharmaceutical stocks are the perfect examples for three key reasons.

Reason No. 1 – Mergers and Acquisitions

In 2017, biotech mergers soared 27%, reaching $332 billion in value. Bain & Co. analysts forecast that the soaring trend will extend through 2018.

Then, in just the first quarter of 2018, merger activity rose 16% year over year. Merger activity is likely to push production rates higher and raise industry profits. Celgene's agreed takeover of Impact Biomedicines in a deal worth up to $7 billion, Takeda Pharmaceutical's plan to buy TiGenix for $630 million, and a recent announcement that Sanofi will buy Ablynx for $4.8 billion got 2018 off to quite a start, according to Reuters.

Better yet, according to consultancy firm EY, we could see $200 billion worth of deals this year.

Reason No. 2 – Our Aging Population

Right now, there are 65 million people over the age of 70 in the United States. As this number continues to grow, we'll see a need for more medication and treatment options. That's a significant amount of potential demand.

Reason No. 3 – Impressive New Innovation

What's exciting is the impressive new innovation that's quickly emerging.

Look at Verastem Inc. (NASDAQ:VSTM) for example, which focuses on developing and commercializing drugs for the treatment of cancer. Its programs target the focal adhesion kinase (FAK) and the phosphoinositide 3-kinase (PI3K) signaling pathways. The company's lead FAK inhibitor is defactinib, an orally available candidate for combination therapy with immuno-oncology agents and other anti-cancer compounds.

While this stock has already moved considerably, we believe there’s further upside thanks in part to recent results for its lead product candidate, duvelisib, which reportedly produced a 94% objective response rate as treatment in younger patients with chronic lymphocytic leukemia (CLL). This combo regimen also reportedly generated a promising 26% complete response rate in this patient population.

But here’s where things could get even more exciting.

The FDA is expected to make a decision regarding duvelisib’s pending New Drug Application by October 2018. However, with the drug showing such great results we wouldn’t be surprised if the FDA approved it long before then.

Or, look at Cara Therapeutics Inc. (NASDAQ:CARA), a clinical-stage biopharmaceutical company that focuses on developing and commercializing chemical entities designed to alleviate pain and pruritus by selectively targeting kappa opioid receptors in the United States.

It's developing CR845 to treat pain and severe itching issues.

In recent months, the company has pivoted its focus on severe itching with regards to chronic kidney disease, and test results have already been very positive. At the moment, there are no FDA approved medications or a standard of care for this issue. As a result, the FDA did grant this treatment Breakthrough Therapy designation, which means we'll see an expedited review. While the stock has moved up significantly, we believe there's another 30% to 40% of upside from this current price.

Both stocks are a buy at current prices.