Hot Sector Investing: Profit from over 100 Emerging Opportunities

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The world is changing rapidly, providing exciting new opportunities for investors. Making money in the stock market has always been easy if you were in the right place at the right time. Unfortunately, this position was generally reserved for professionals. Individual investors were excluded by virtue of their inexperience at trading and lack of timely information.

With the increasing globalization and certain industry segments continuing to perform well despite difficult economic conditions, analysts have started looking at the world in a different way - by industry rather than by country. As a result, sector investing has replaced the global diversified investment approach of the 70s. Sector investing builds on the premise that it is possible to identify those elements of the economy which will do well over a specific period, and thus how to achieve sizable gains. It is a top-down investment approach, which considers sectors or industry groups – i.e. companies in closely related businesses – as the first criteria for selecting securities. Stocks within a sector tend to move together, because market and economic conditions affect companies within a sector in similar ways. By anticipating economic trends, investors can take positions in emerging opportunities earlier than they otherwise could have and sell them before the economic cycle peaks.

It is not necessary to be an economist with a perfectly accurate forecast to succeed in sector investing. It is important to understand the global trends and how new economic data and information may alter perceptions and attract money to one particular sector or another.

According to the author, David Wanetick, this book is intended to help the individual investor in his decisions by introducing several sectors with great future prospects. It explains what these sectors are and also how and why they can make you wealthy.

In total, the book covers 12 major sectors: education services, business services, retail niches (natural foods, candles, etc.), financial services and related opportunities, water, extreme sports, travel and tourism, health care, dental care, security and safety, telecommunications, and some miscellaneous sectors (such as pet care, noise pollution, etc.). Each of these sectors is divided into industries that are more specific. For instance, the health care group contains assisted living facilities, contact lenses, cosmetic medicine, cosmetic surgery, automated external defibrillators, personal emergency response systems, infectious diseases, alternative drug delivery, clinical research organizations, and vaccines.

For each industry, the book provides a detailed description of its activities, accompanied by a comprehensive analysis of the relevant facts, as well as market, business, and economic forecasts. The book also provides a view of the upside and downside potentials through short sections of useful "Tips" and "Traps". Based on this analysis, the investor must then attempt to assess the industry's performance going forward.

As the author mentions in the preface, the major strategy of the book and how to select sectors is based on the "time theme": where and how people will be spending their time and money. For instance, more free time signals strong prospects for travel and tourism related companies as well as for extreme sports. Longer lives mean long-term sustainable growth for the health care industry. A growing population and rising consumption placed on diminishing water supplies should increase demand on water management and purification.

The book is very easy to read. It is well organized and written with explanations that the investment professional or layman can easily understand. It provides a simple and common sense approach to sector analysis, complemented by a useful 20 page index. Unfortunately, the book seems to have omitted or failed to develop several important points.

1. *1999, 350 pages, $23.95 (Paperback). ISBN: 0-7931-3023-9*

First, the book only provides sector trends. It lists the major publicly traded players in each industry, but it does not differentiate between the investment qualities of any of them. It only occasionally mentions its favorites, and then only in passing. There are no real individual stock recommendations. Consequently, the investor still has to do his homework by identifying shares of companies with bright prospects within a sector. This may be a risky endeavor. Sector-correct stocks may have valuations that imply excessively high expectations, which, if unrealized, can lead to stock prices cut in half. Overestimating sustainable growth can lead to years of underperformance. Government action or threats to act can cast a pall on a business. This is why sector investing is easy to theorize but more difficult to execute.

Second, investors seeking the performance potential that a particular sector offers, who want a concentrated exposure to a specific sector of the economy, or who seek to invest in industries that are not yet mature, but do not want to take on the responsibility of researching individual companies may use sector funds instead. In what appears to be another oversight, the book does not mention anything regarding sector investment funds.

Third, nowhere is there a mention of risk, nor of how large the sector investment in a portfolio should be. Sector investing reverses the benefits of diversification by holding portfolios of stocks that react to factors affecting the industry in a similar fashion, either up or down. In both the short term and the long term, individual sectors can behave quite differently from the market as a whole -- and from each other. Individual stocks can make spectacular gains at times, but they are also subject to sharp reversals. Similarly, narrowly-focused portfolios can experience strong returns over a relatively short time and offer above-average long-term returns as well. However, given their volatile nature, they can also experience sizable losses. Therefore, investors should not consider sector portfolios as a core investment, but rather as an add-on to enhance the overall return of an already diversified portfolio.

Finally, the focus is restricted to US investing, which is a shame for a sector-investing book. Integration between countries is now greater than ever before. To take a recent example, the introduction of the euro is causing local European companies to view the euro-zone as a whole as their home market, not just the country in which they are based. Consequently, similar trends are now perceived in sectors across borders, yielding new emerging opportunities, and adding further risk diversification and return potential for long-term gain to a sector portfolio. On this topic, however, the book remains silent; another unfortunate omission.

Despite these drawbacks, *Hot Sector Investing* is still a valuable guide for anyone embarking on the sometimes perilous - but potentially highly profitable - journey of investing in sectors of the stock market. Although one may agree or disagree with some of David Wanetick's arguments, the book provides a nice window on twelve sectors, including several industries that Wall Street security analysts do not really follow, a box of fresh investment ideas…

