

HOLD UP THOSE 4 FINGERS

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You football fans know what that means. Well, we now have 3/4ths of second quarter 2007 earnings in for the S&P500 (375/500). Earnings estimates just prior to the kickoff of earnings season indicated that earnings would rise by only 4.8%.

As it turns out, estimates have once again proved to be too low. Of those reporting so far, 65.9% have beat consensus estimates. To date, earnings for all companies reporting are up 10.9% compared with the second quarter of 2006. Additionally, strong earnings performance is not confined to the United States. Stocks in Asia and Europe are also advancing on better-than-expected earnings reports.

We will continue to watch earnings reports closely the next several weeks while keeping an eye on estimate revisions for the balance of 2007 and 2008. In our view, the recent weakness in stock averages is not related to corporate earnings performance. With strong index-driving fundamentals in place, the outlook looks good for higher stock averages. Once the dust settles, investors are likely to once again start cheering.