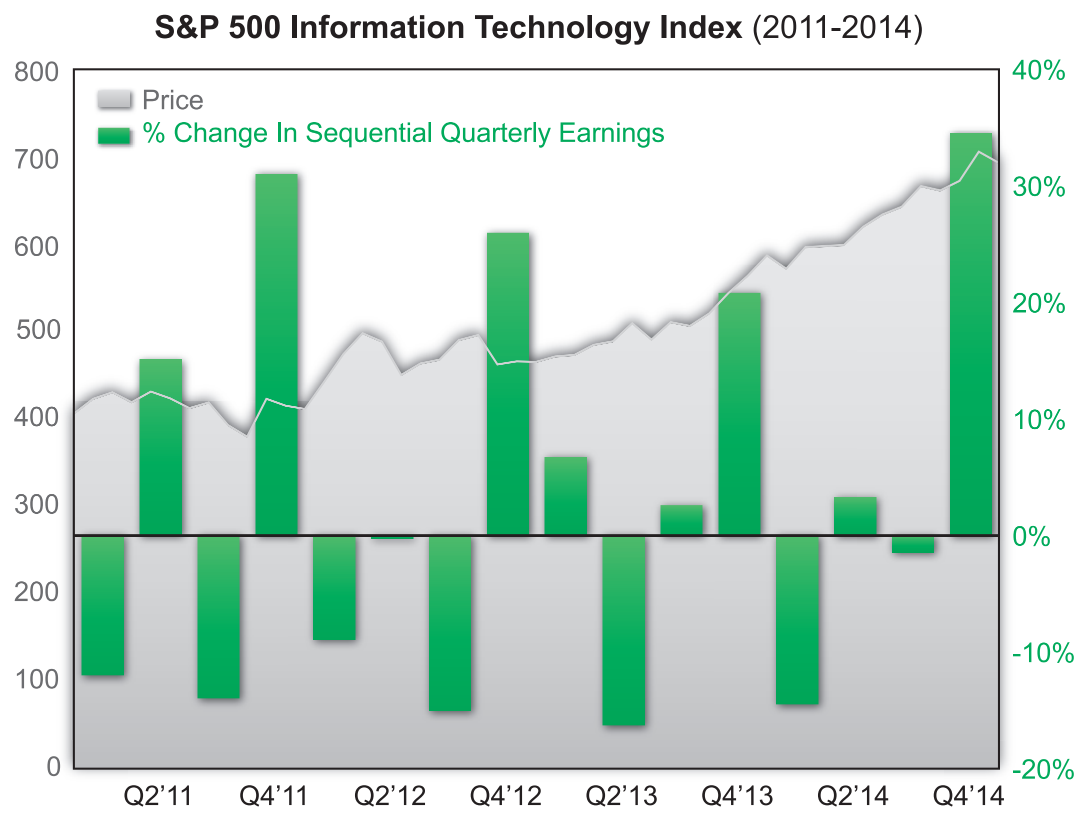
The Stock Market Doesn't Go Up In A Straight Line… Nor Do Earnings



Source: Bloomberg. Past performance is no guarantee of future results.

View from the Observation Deck

1. It's earnings reporting season. Today's blog post uses the S&P 500 Information Technology Index to illustrate how tricky investing can be using only three months of corporate earnings as a measuring stick.
2. From 12/31/10-12/31/14, the cumulative price-only return (dividends not included) on the S&P 500 Information Technology Index was 71.04%, or an average return of 14.35% per year, according to Bloomberg.
3. There are 16 green bars in the chart representing the index's percent change in sequential quarterly earnings. They run from Q1'11 through Q4'14. Eight of them were positive and eight were negative.
4. Ironically, while half of the quarters were negative on a percent-change basis, all 16 quarters were positive when measured in dollar terms.
5. Those earnings results were as follows: $6.92 (Q1'11); $7.97 (Q2'11); $6.85 (Q3'11); $8.98 (Q4'11); $8.18 (Q1'12); $8.17 (Q2'12); $6.94 (Q3'12); $8.75 (Q4'12); $9.33 (Q1'13); $7.81 (Q2'13); $8.01 (Q3'13); $9.68 (Q4'13); $8.28 (Q1'14); $8.55 (Q2'14); $8.43 (Q3'14); and $11.34 (Q4'14), according to Bloomberg.
6. Here were Bloomberg's quarterly earnings estimates, as of 7/22/15, for 2015 and 2016: $9.03 (Q1'15); $8.85 (Q2'15); $9.89 (Q3'15); $12.66 (Q4'15); $10.83 (Q1'16); $10.95 (Q2'16); $11.15 (Q3'16); and $14.04 (Q4'16).
7. We believe that corporate earnings determine the direction of stock prices over time.

This chart is for illustrative purposes only and not indicative of any actual investment. The illustration excludes the effects of taxes and brokerage commissions and other expenses incurred when investing. Investors cannot invest directly in an index. There can be no assurance that any of the projections cited will occur. The S&P 500 Information Technology Index is capitalization-weighted and comprised of S&P 500 constituents representing the technology sector.