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An Earnings Season Survival Guide

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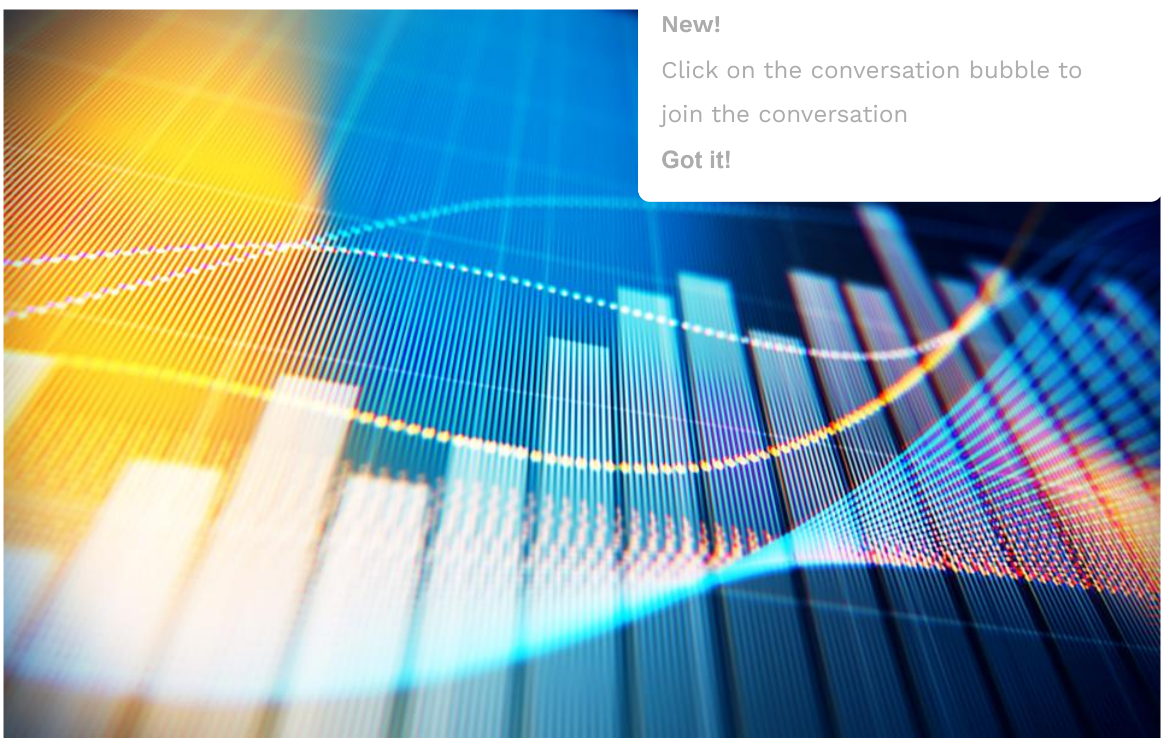

Earnings seasons is heating up GETTY

For most investors, an important part of stock analysis hinges on earnings season—the four times in a year when publically traded companies release their quarterly earnings, and typically provide some forward guidance that forecasts their financial future.

Most of the time investors intensely focus on this period of reporting, because substantial information on a lot of stocks is disclosed in a compressed period of weeks. Over the past two years, the beginning/middle/end of Covid periods have made earnings reports more important in helping investors evaluate the rapidly changing state of the markets. Under normal conditions, it makes sense to incorporate a company's outlook into your evaluation of its stock. But current conditions are changing so rapidly due to the first-of-its-kind "Great Reemergence" that I wonder if we should consider earnings outlooks at all!

If you find yourself losing sleep over this current earnings season, I have four points that should help you survive these stressful times in the markets.

1. Should you be doing this at all?

Be honest with yourself about your investment horizon. You must be analytical and cool-headed about recent highly variable earnings seasons. If your horizon is long, you can afford to be more tolerant of drops and uncertainties that company executives will most likely express in the conference calls. Expect outlooks to be all over the place: some doom; some positive; many more will be ambiguous. If you are not long-term focused, this could drive you nuts. Read a good book instead.

2. Watch for what companies do rather than what they say.

Earnings calls are filled with carefully scripted monologues that are intended to avoid litigation. Executives are extremely careful with wordsmithing. Nothing is spontaneous in these calls, except for the question/answer segment at the end. Even then, it's helpful to visualize the CEO reading a hastily scribbled answer from his miming general counsel. In addition, analysts are extremely careful framing their questions. That's because they don't ever want to be ostracized by management, so they are sickeningly flattering to them. I hardly pay attention at all to the Q/A period unless it involves simple factual questions about past capital expenditures, etc. Otherwise, the answers are so finessed it's hard to draw any conclusions. One exception revolves around demonstrative actions the company can take. These actions are more indicative of their outlook than the hundreds of words they speak. For example, if a company states they will be tightening their belts over the remainder of this year, who really knows what actions that implies? But if they announce a ceasing of their stock buyback program—that's real news you can use!

3. Don't hinge on every word.

In this confusing, fluid environment companies don't have much better visibility about the future than everyone else. Acting on the endless unstable developing news headlines can be a lost cause. An excellent example of senseless activity was last week. For a short 24-hour period, analysts thought the Fed would raise 100 rather than 75 basis points. This was based on some random data produced that day. That quickly vanished when the next piece of ephemeral news led anxious speculators in a different direction. Typical executive monologue about retail sales trends or inventory outlooks is useless until the market returns to a more traditional level of uncertainty.

4. As the Navy Seals say: "Embrace the suck!"

This may be the most challenging and confusing period for investors ever. Many think the uncertainty is worse than the Global Financial Crisis or the Dot.Com Bubble. As difficult as it seems, to be a successful investor you must be an optimist and a risk taker. The ability to think independently is more critical than ever now. Accept the frustration, and remind yourself that staying in the game requires intelligent fortitude.

Passions and emotions are very important drivers in investing, along with the ability to prioritize a vast array of data. As you navigate through every earnings season barrage, perhaps these four points will anchor your objectives and keep you focused on the things that matter.

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