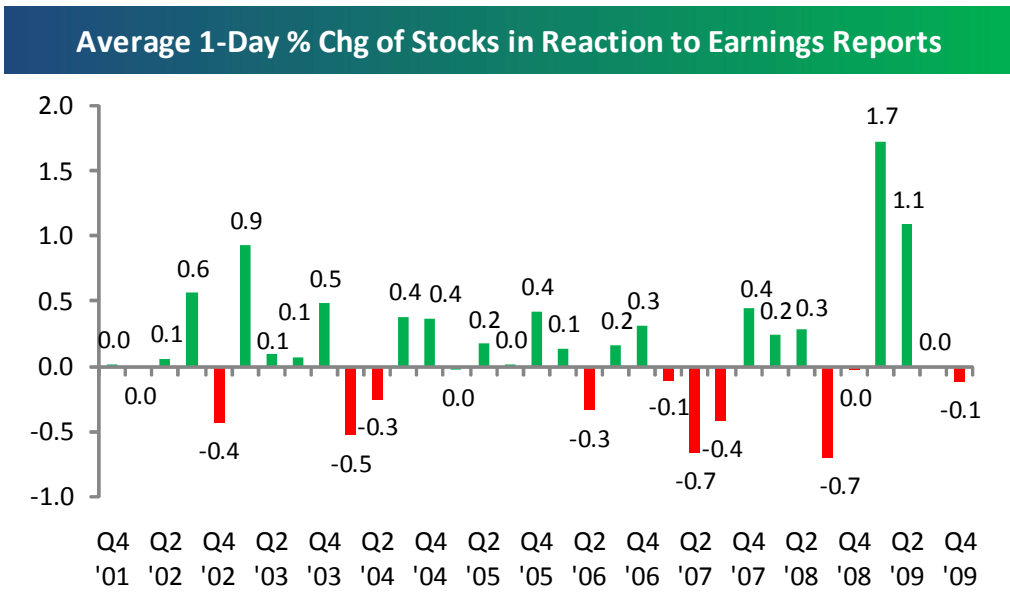
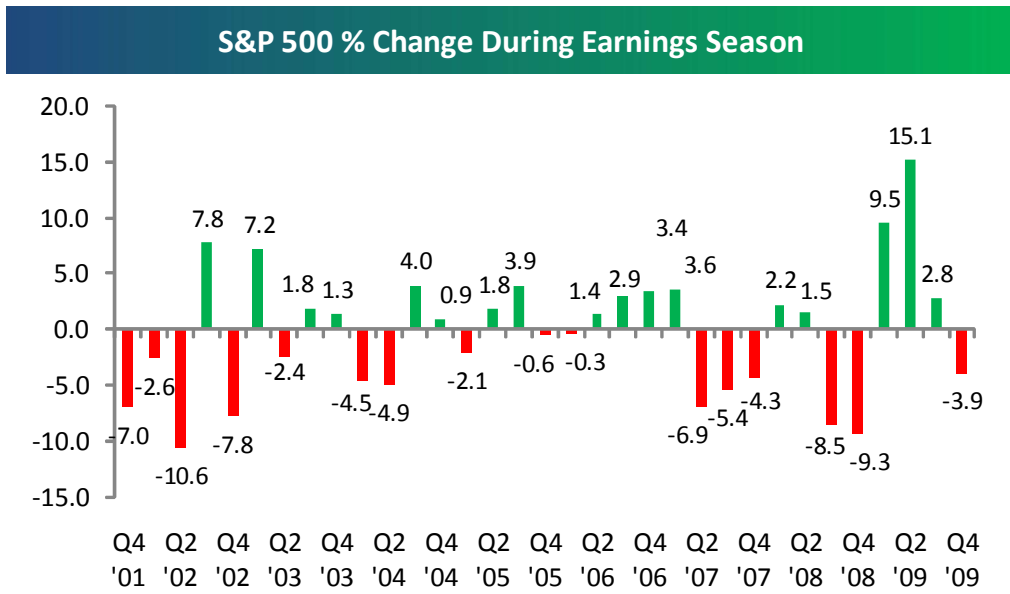


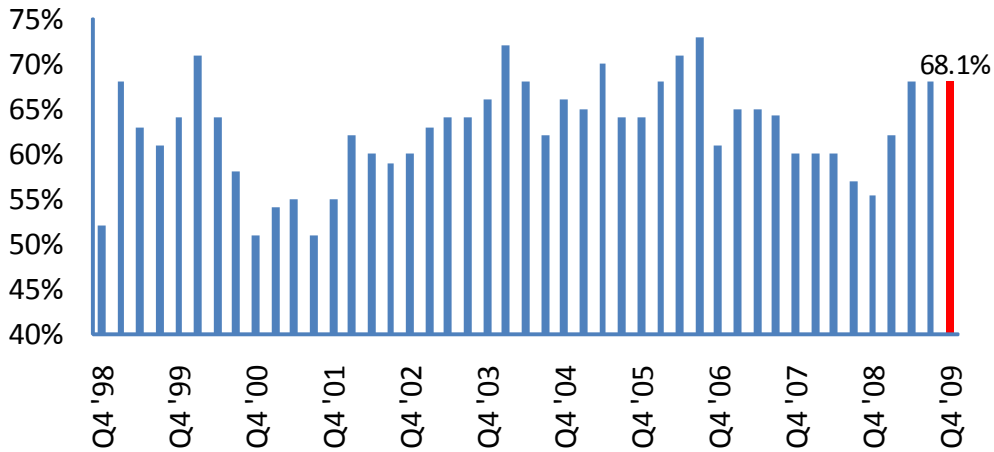
Final Earnings Season Stats

Earnings season comes to an end today with this morning's report from Wal-Mart (WMT). The unofficial earnings season runs from Alcoa's (AA) report date through Wal-Mart's (WMT) report date. This earnings season, the S&P 500 declined by 3.9%. In the first chart below, we highlight the S&P 500's change during all earnings seasons since Q4 2001. As shown, this is the first decline for the index during an earnings season in four quarters. Since 2001, the average change for the S&P 500 in the earnings off-season following a down earnings season has been +0.79%, while the average change in the earnings off-season following an up earnings season has been +0.38%. The average stock that reported earnings declined 0.12% on the day of its earnings report.

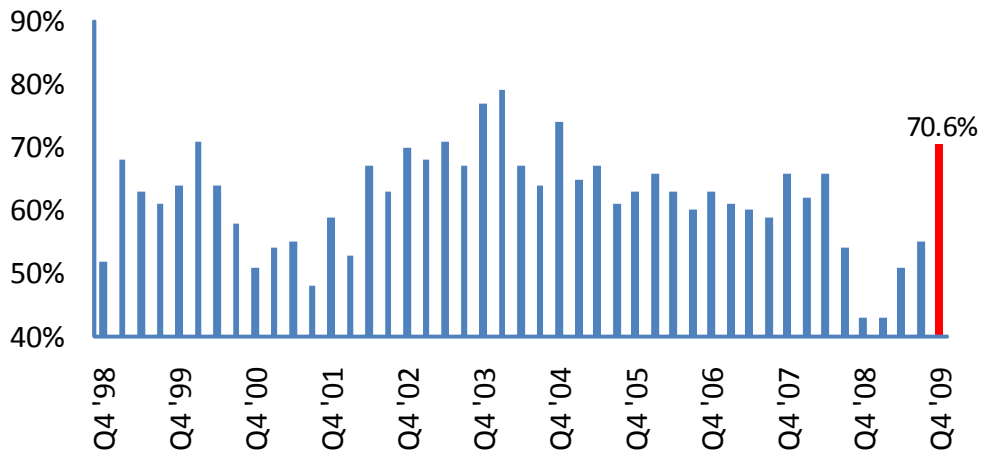


While stocks went down this earnings season, the earnings reports were great. As shown below, the final earnings “beat” rate count (% of companies beating EPS estimates) for all US stocks was about 68%. For three consecutive quarters now, the beat rate has been right at 68%. Revenues finally came in strong as well. As we’ve been mentioning, bears have been using the argument that top-line numbers are weak even though bottom-line numbers have been strong. This quarter, the revenue beat rate was above 70%, which is the highest level seen since Q4 2004. On both the earnings and revenue fronts, numbers were very strong this earnings season.

Historical Quarterly EPS Beat Rate

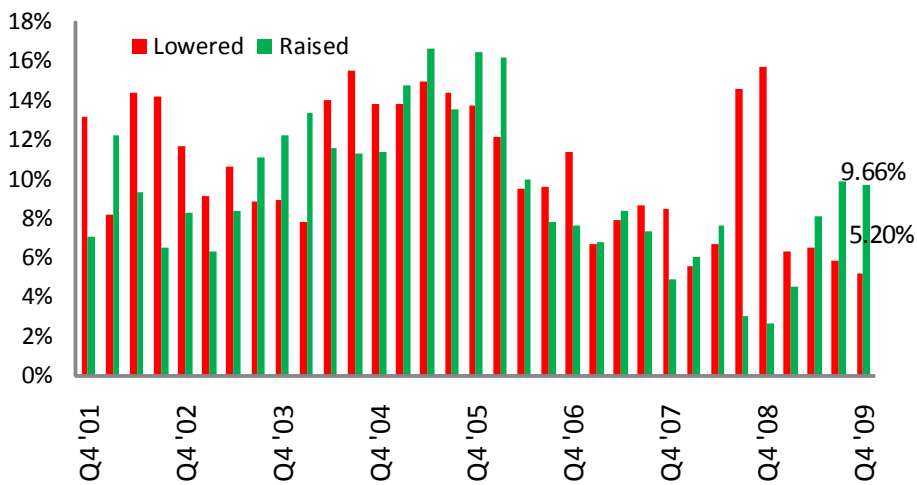


Historical Quarterly Revenue Beat Rate

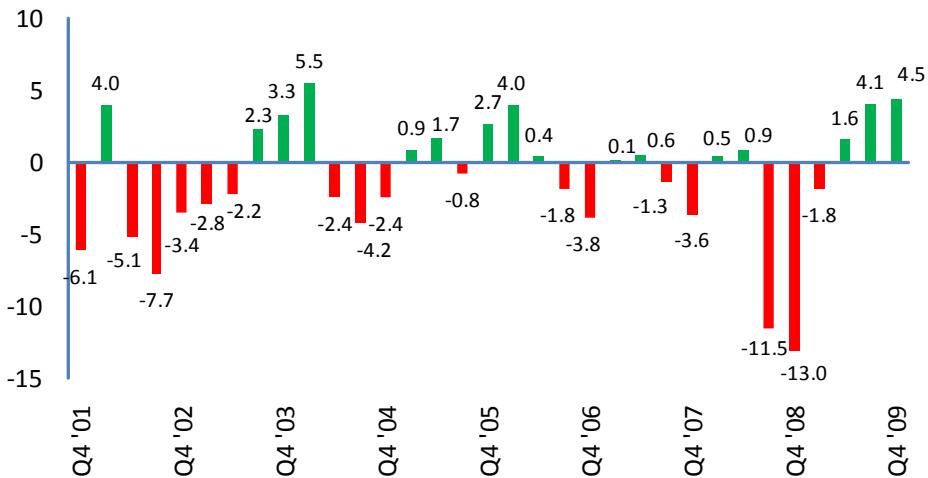


While earnings and revenues were strong this earnings season, guidance matters just as much. And this season 9.66% of companies raised guidance while 5.20% lowered guidance. The spread between raised to lowered guidance was at its highest level since 2001 last week, but reports in the last few days have tightened the spread a bit. The final reading for the spread was 4.5 percentage points, however, which is the second highest spread seen since 2001. We like to highlight “triple plays” for individual stocks that report strong earnings, revenues, and guidance, and this earnings season, the entire market reported a triple play.

Historical Quarterly Guidance Percentages



Raised to Lowered Guidance % Spread by Quarter



Below is a table of fourth quarter earnings season. If we only look at S&P 500 stocks, 70.7% of them beat earnings estimates, which is slightly higher than the beat rate for all stocks. S&P 500 stocks averaged a bigger decline on their report days, however, at -0.72%. S&P 500 companies that beat earnings estimates only averaged a gain of 0.09%, which is very weak.

Consumer Discretionary was the sector that stood out the most this earnings season. It had the second highest earnings beat rate (behind Technology), and stocks in the sector performed the best on their report days with an average gain of 0.59%. Energy and Materials stocks struggled the most on their earnings report days, with average 1-day declines of 1.08% and 1.33% respectively. Materials stocks that **beat** earnings estimates averaged a 1-day **decline** of 0.59%.

Fourth Quarter Sector Earnings Season Stats

| | # Reported | Avg 1-Day % Chg | Beat EPS | Avg 1-Day % Chg | Missed EPS | Avg 1-Day % Chg |
|-----------------------|------------|--------------------|----------|--------------------|------------|--------------------|
| All Companies | 1346 | -0.12 | 68.1% | 1.15 | 23.6% | -3.18 |
| S&P 500 | 369 | -0.72 | 70.7% | 0.09 | 19.5% | -2.89 |
| Cons. Discret. | 161 | 0.59 | 75.2% | 1.71 | 16.8% | -3.21 |
| Cons. Staples | 57 | -0.11 | 66.7% | 1.50 | 28.1% | -3.45 |
| Energy | 78 | -1.08 | 59.0% | 1.03 | 34.6% | -4.54 |
| Financials | 227 | 0.09 | 63.9% | 1.17 | 29.1% | -2.30 |
| Health Care | 160 | 0.21 | 63.8% | 1.31 | 24.4% | -1.14 |
| Industrials | 201 | -0.49 | 61.7% | 1.33 | 28.9% | -3.75 |
| Info. Tech. | 342 | 0.06 | 78.4% | 1.15 | 13.7% | -5.13 |
| Materials | 77 | -1.33 | 68.8% | -0.59 | 28.6% | -2.87 |
| Telecom | 11 | -0.85 | 18.2% | -0.67 | 45.5% | -1.56 |
| Utilities | 32 | -0.80 | 56.3% | -0.09 | 34.4% | -1.80 |

Throughout earnings season, we've been stressing how positive earnings reports have been, arguing that the weakness in the market was due to external factors. Over the last week or so, the market has really come back nicely, and now everyone seems to be jumping on the "strong earnings" bandwagon. It took awhile for investors to take notice, but it now looks like they finally have.