

CHAPTER NEWS

Philly BetterInvesting April 2021 Newsletter

Analyzing Analyst Analysis by Doug Swart, BI Philadelphia Chapter Vice President

Stock analysts have been part of our investment community for years. Known for a close connection to the pulse of business, we've entrusted a significant amount of creditability in their work. But, have we surrendered more trust and confidence than we should?

Every 3 months there's an overwhelming amount of quarterly earnings reported as having either met or missed analysts' consensus or on the positive side "beaten the street". Some short term volatility follows and the cycle begins again. There are upgrades, downgrades along with raised and lowered price targets published in many financial news sources.

Stock analysts are usually employed by big Wall Street firms and investment houses where some serve as fund managers responsible for large portfolios. Others support individual wealthy clients and some institutional portfolios. A report updated in late 2020 by the U.S. Bureau of Labor Statistics summarizes what most analysts actually do. Duties include recommending investment opportunities, evaluating financial data, studying economic and business trends, determining the strength and value of a company, assessing the quality of the management team and communicating findings to end users.

Consensus refers to the averaging of estimates submitted by many analysts who report individual revenue and EPS judgements for periods usually not exceeding two years. Companies such as Thomson, Zacks and Refinitiv compile these estimates and disseminate them. Analysts will update projections as new information becomes available. A consensus EPS of \$2.00 per share often is the result of a wide range of higher and lower individual estimates.

A report authored by Paul Glasserman and Costis Maglaras of the Columbia Business School in 2008, "Analysis of the Analysts", considered if there appeared to be any apparent bias from analysts. They sought to identify whether forecasting error was positive or negative referring to over-or-underestimating earnings by calculating analysts forecast error rates.

$((\text{Forecast EPS} - \text{Actual EPS}) / \text{Share Price})$. A positive number indicates an analyst overestimated and a negative number means the analyst had underestimated. An Investopedia article reports that only 30% of stock analyst projections were within a reasonable margin of error.

The pandemic will end. Normalcy will return. Analysts will analyze and investors invest. Growth rates will improve and opportunities expand as covid is brought under control. The takeaway is not that consensus accuracy improve, rather that it is the investor's responsibility for projecting investing judgements. The current herd mentality has pushed indexes to new highs and created unreasonable multiples. Many of today's less favored stocks will soon return to qualify as good quality growth companies available at a reasonable price. We should each be our own most favorite analyst.

UPCOMING EVENTS:

4/24/21 - Online webinar - "Celebrating Financial Literacy Month" - Learn how to plan your financial future and how to get comfortable with investing.

4/29/21 - Online webinar - "How Can I Be Sure" - Cy Lynch, Lifetime BI member will discuss outside sources to validate SSG judgments and identify red flags.

6/19/21 and 11/6/21 - Online and TBD - "Learn the SSG" - Learn how to use and navigate the Better Investing Stock Selection Guide.

9/14/21 – Online webinar - "Current State of the Equity Market"- TBA

12/4/21 – TBD - Doug Gerlach of Better Investing will speak. Portfolio reviews will be available to Clubs who submit their portfolio details beforehand.

CHAPTER SUPPORT: The Philadelphia Chapter sponsors two Model Investment Clubs. One meets on the second Thursday. The other on the second Saturday. Chapter directors are also available for information education and support including making a club visit.

Visit www.betterinvesting.org/philly for details, registration and contact information. All events are being scheduled online. We hope to resume live events when conditions are safe.

Club Visits:

The Philadelphia Area Chapter of BI wants to get to know the members of the many BI Investment Clubs located in our area. To receive a free club visit, in person or virtually, contact Gloria Mankonen at contact@philly.betterinvesting.net or 215-796-1214. A 15–30-minute free class, topic your choice, can be presented as your club education during the visit.

Visit a Club:

For those clubs trying to increase their club membership, you can post your club info on the Philadelphia Area Chapter located on the BI web site at: <https://www.betterinvesting.org/chapters/philadelphia-area>

After clicking Visit My Chapter, click: visit-a-club. You will see the

Visit-A-Club Program – Club Application

The Visit-A-Club program is solely for the purpose of showing how investment clubs operate.

To be considered for the BetterInvesting Visit-A-Club program, the club certifies that the club pays annual BetterInvesting club dues, is a legal partnership, all members participate and there are periodic meetings.

Note: For your privacy and security, only limited information is listed on chapter websites.

Club Name: _____ BetterInvesting Club #: _____

Club Meeting Location: City: _____ Zip: _____

Club Contact for Visit-A-Club program (Must be a BI Member):

Club Contact Email:

Club Contact Phone Number:

Number of club members: _____ Years in Existence: _____

Club Composition: Men Women Mixed
Adults/Children

Meeting Frequency: Once a Month _____ Other

Regular Meeting Day & Time: Day: _____ Time: _____

Questions? Check the FAQs at <http://www.betterinvesting.org/visitaclub>
or call your local Chapter Contact or
email contact@philly.betterinvesting.net

Send the completed application to contact@philly.betterinvesting.net.

(Your BetterInvesting club number can be found on the magazine label
above your name; your club number precedes the dash.)