

To Buy or Not to Buy Stocks Ahead of Earnings This Week

You may want to fasten your seatbelts, because fourth-quarter earnings reporting season kicks off this week.

Tomorrow the big money center banks take center stage, reporting their results for the three months ended in December, led by **JP Morgan Chase (JPM)**, **Bank of America (BAC)**, and **Wells Fargo (WFC)**.

Over the next two weeks alone, more than 70% of S&P 500 stocks are slated to report their results.

The good news is that S&P 500 companies are set to report aggregate earnings growth of 5.2% for the quarter, according to data from I/B/E/S. That's down slightly from the 7.5% profit growth posted by stocks in the third quarter, but still a solid showing.

And keep in mind that about 70% of S&P companies typically beat Wall Street estimates, usually by a few percentage points. That means actual fourth-quarter profits could be on par with third-quarter results once all is said and done.

But even so, you should expect earnings season to add volatility to the stock market in the weeks ahead, as it tends to do.

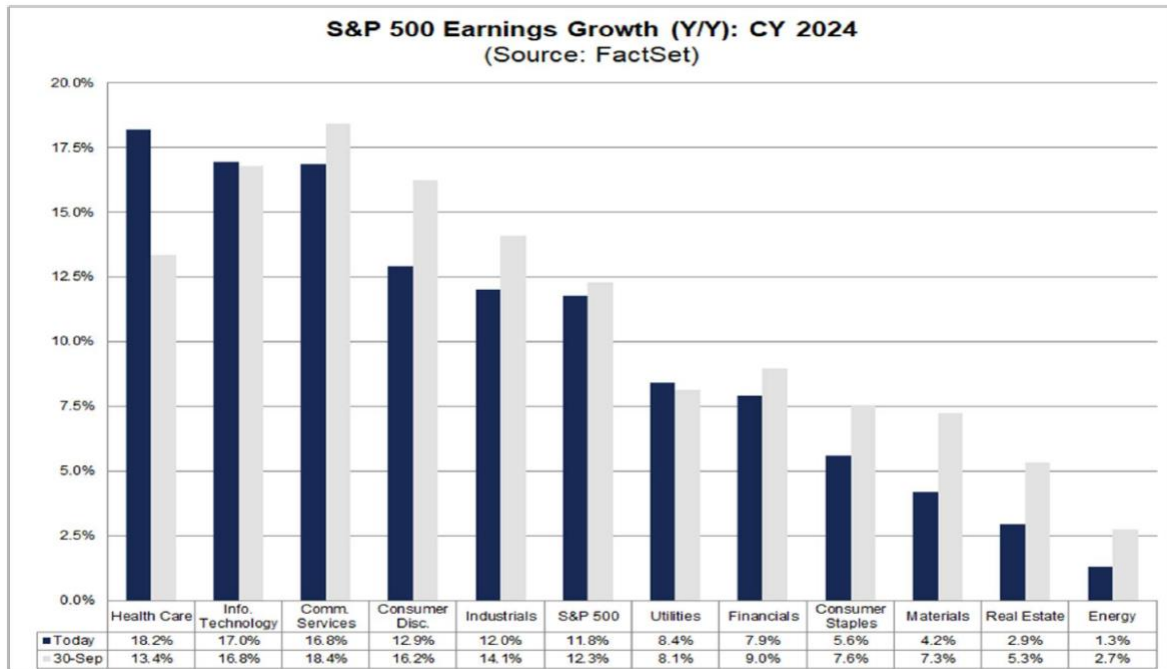
Plus, not all stocks and sectors are created equal when it comes to profit expectations.

Seven of the S&P's 11 sectors are expected to post positive earnings growth year-over-year, while four sectors are forecast to report a decline in profitability.

- The utilities sector has the highest expected growth of any other sector at 49.4%
- Communications services comes in a close second at 48.4% year over year growth.
- Energy, on the other hand, is expected to post a profit decline of 24.5%

Materials (20.3%), health care (18.5%) and industrials (1.6%) are the other three sectors expected to report negative earnings comparisons in the fourth quarter.

But the profit picture should brighten considerably as 2024 rolls on.

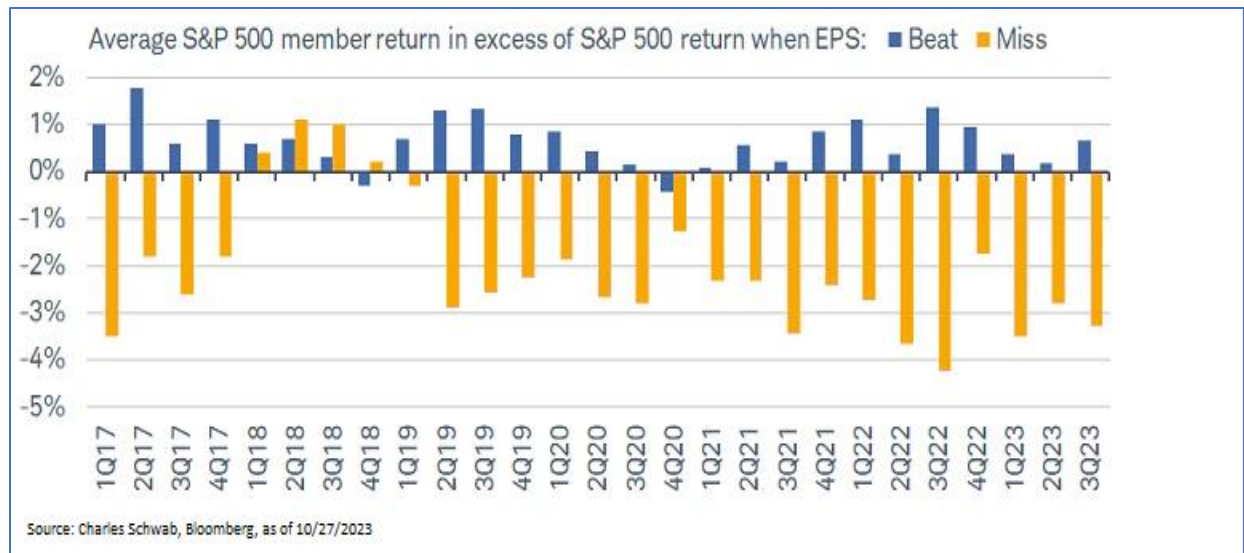


As you can see above, every one of the 11 S&P 500 sectors should report growing earnings for full-year 2024. And five sectors are expected to grow profits even faster than the 11.8% rate for the index overall.

In the lead is health care (18.2%) followed by technology (17%) and communications services (12.9%). Energy, real estate, and materials are bringing up the rear for '24 earnings growth estimates but should still post growing results.

How to Manage Your Stock Line-up During Earnings

Keep in mind that, during earnings-reporting season, there's a clear performance divide between stocks that beat estimates and those that fall short, as you can see below.



In recent years, stocks that missed profit forecasts were severely punished with negative returns of anywhere from 2% to 4% relative to the S&P 500 return.

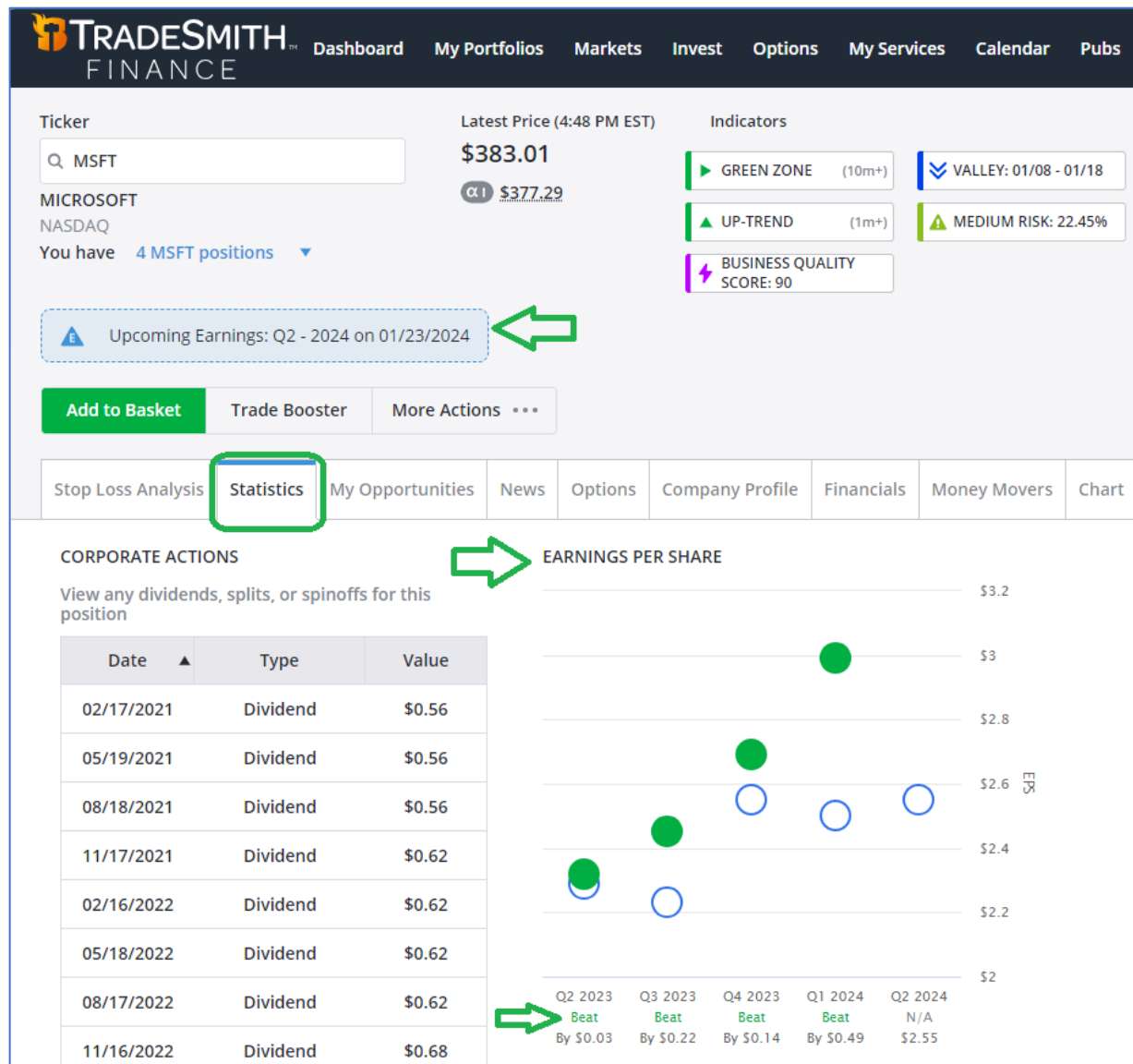
So, you may want to avoid adding stocks to your portfolio just ahead of the start of earnings reports, unless they have a track record of beating estimates.

You can easily review your current holdings within *TradeSmith* [Finance](#).

Click on **My Portfolios** in the top menu, then click on the **Analyze Portfolio** tab and select the portfolio(s) from the drop-down menu and select a position from the **Open Positions** tab.

Or if you'd like to quickly check any stock, type the symbol into the **Search for Ticker** box at the top of any page.

I'm using **Microsoft (MSFT)** for today's example.



Click on the **Statistics** tab and look to the right and below for **Earnings Per Share**. We display the most recent four quarters of actual earnings (green circle) and estimates (blue-outline circle).

Check to see if your companies have consistently beat profit estimates, as Microsoft has.

Companies that regularly beat analyst earnings estimates are more likely to do so again. That means less chance ending up on the wrong side of a negative earnings miss this reporting season.

Mike Burnick's Bottom Line: Earnings reporting season can be a turbulent few weeks full of ups and downs depending on which stocks beat or miss estimates. But it can also be a time of great

opportunity to uncover winning stocks that consistently exceed profit estimates *and* get rewarded for it.

Good investing,

Mike Burnick

Senior Analyst, *TradeSmith*