

## A Positive Start to Quarterly Earnings

Earnings reports have been a positive surprise so far. For the S&P 500, 77 out of 500 companies have reported with 78% beating expectations, 5% matching and 17% below expectations. The 48 company earnings reports from the past week have raised the combined (reported and estimated) earnings growth for the quarter from -2.3% to -1.7%.

A complicated macroeconomic backdrop (flat yield curve, strong dollar, US-China trade issues) may have influenced analysts to the downside on their estimates for the quarter, but individual company actions (growth initiatives, cost control, share repurchase) have produced better than anticipated earnings results quarter-to-date.

Historical level of upside earnings surprises has averaged 3.2%. Quarter-to-date, upside earnings surprises are averaging 5.2%, meaning the average company is reporting earnings 5.2% higher than the consensus estimate of analysts. The best aggregate upside surprises have come in Communication Services (+20.3% with 2 of 20 companies re-reporting) and Materials (+14.0% with 1 of 25 reporting). Least aggregate surprises have come in Energy (+1.0% with 2 of 27 reporting) and Real Estate (+2.6% with 3 of 29 reporting).

Investors' view of the market should continue to evolve as the remaining 400+ companies in the S&P 500 reporting earnings over the next few weeks.

### Financial Market Update

	<u>Weekly Return</u>	<u>YTD Return</u>		<u>Weekly Return</u>	<u>YTD Return</u>
S&P 500 Index	-0.1%	15.9%	International Stocks (MSCI ex-US)	0.3%	13.6%
Dow Jones Industrial Average	0.6%	13.9%	Aggregate Bond Index	0.0%	1.6%
NASDAQ 100	0.8%	21.5%	U.S. Dollar Index	0.5%	1.3%
Russell 2000 (Small Cap Index)	-1.2%	16.1%	WTI Crude Oil	0.2%	40.9%

Sources: S&P Global, Thomson Reuters

### Dissecting Headlines: Relative Valuation

We discussed Price-to-Earnings Ratio ("PE ratio") in last week's commentary. The PE ratio is one metric that can be used in valuing stocks. The concept of "Buy Low, Sell High", can be re-thought to "Buy Cheap, Sell Expensive". One way to use PE ratios to determine cheap versus expensive is with relative valuation.

Relative valuation is comparing any metric, like the PE ratio, to determine if one stock is cheap or expensive compared to its own history, its peer group of stocks, or to the market as a whole. Because the stock market is always forward looking, investors tend to reward potential growth. Companies with higher growth rates tend to have higher PE ratios. Investors also tend to reward quality, so companies seen as providing a high degree of certainty to grow tend to have higher PE ratios.

Similar to home sales, your neighborhood "comps" are important. Investors would view stocks like Home Depot and Lowes in the same "neighborhood". Similar with Coca-Cola and Pepsico, JPMorgan and Citigroup, etc. High potential, earlier stage companies may receive higher PE multiples like we see with some Technology companies, but those high PE ratios may be fragile if the companies don't produce the expected earnings growth.

## Do You Know Your Risk Number?

Individuals often classify their investment risk tolerance with adjectives such as "Conservative", "Moderate", or "Aggressive".

These can be highly subjective and may not correctly identify the amount of risk someone is actually comfortable taking.

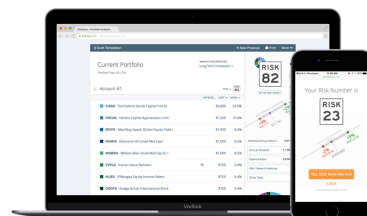
One Moderate investor may feel uncomfortable if their portfolio fell 5% while another may not feel uncomfortable until their portfolio falls more than 10%.

While investors understand that the purpose of taking risk is to achieve investment returns, they may not have a realistic sense of how much risk is required to achieve a targeted level of return. In this case, they may not be taking enough risk and won-

dering why they are not able to achieve the returns they want.

We work with our clients to identify the risk they are comfortable taking and balance it with the investment objectives they are seeking to achieve.

Take our complimentary [risk analysis questionnaire](#).



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Joe has over 20 years of experience in the investment management industry. Prior to founding NovaPoint, he was a portfolio manager at Spectrum Advisory Services and GMT Capital in Atlanta, and Epoch Investment Partners in New York. He has also worked as an equity research analyst at Merrill Lynch and ABN Amro. Before beginning his investment career, Joe was an Infantry officer in the U.S. Army. Joe holds a BS from the U.S. Military Academy at West Point and an MBA from the University of Chicago. He is both a Chartered Financial Analyst (CFA) and a Chartered Market Technician (CMT).



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Alan has over 20 years of experience in the investment management industry. Prior to founding NovaPoint, he was a fixed income manager at both Spectrum Advisory Services and a private family office. Alan was also with the Bank Group division of Countrywide Capital Markets where he developed balance sheet strategies for depository institutions. He holds a BS in Banking and an MBA in Finance from Nova Southeastern University. Alan is Certified Plan Fiduciary Adviser (CPFA) and an endurance athlete and three-time IRONMAN finisher.



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Jeff has 9 years of industry experience. Prior to joining NovaPoint, Jeff was a Vice President in the Private Banking and Investment Group at Merrill Lynch. Jeff also worked at Booz Allen Hamilton and the Department of Defense. Prior to his private sector career, Jeff was a Field Artillery officer in the U.S. Army. He holds a BA from the University of Texas and an MBA from the University of Maryland. Jeff is Chartered Financial Analyst (CFA).

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