

## Calm Before the Earnings Storm

The S&P 500 Index added to an impressive first quarter return by posting a 2.1% return in the first week of 2019's second quarter. Economic and trade optimism buoyed equity markets.

Later this week, the first quarter earnings season kicks off with major banks J.P. Morgan Chase, Wells Fargo, and PNC announcing their quarterly results. The tempo picks up the following week with more banks to include Citigroup and Goldman Sachs, and major companies from other industries such as Johnson & Johnson, Netflix, IBM, and Pepsico.

Investors will learn a great deal of information from this earnings season that may shape the remainder of the year. How has a flat yield curve impacted the banks? What is the continuing impact of U.S.-China trade tariffs on earnings growth for companies across a variety of industries? How have higher oil and gasoline prices impacted consumer discretionary companies such as retailers, restaurants, and entertainment?

Most importantly, we can learn from management commentary what the companies are doing to be proactive in the current economic environment.

## Financial Market Update

	<u>Weekly Return</u>	<u>YTD Return</u>		<u>Weekly Return</u>	<u>YTD Return</u>
S&P 500 Index	2.1%	15.4%	International Stocks (MSCI ex-US)	2.4%	12.9%
Dow Jones Industrial Average	1.9%	13.3%	Aggregate Bond Index	-0.6%	1.8%
NASDAQ 100	2.7%	19.7%	U.S. Dollar Index	0.1%	1.2%
Russell 2000 (Small Cap Index)	2.8%	17.4%	WTI Crude Oil	4.9%	38.9%

Sources: S&P Global, Thomson Reuters

## Dissecting Headlines: Earnings Per Share

As companies announce their first quarter results, a big focus is "Earnings Per Share", or "EPS". This data point represents the company's net income divided by the total number of shares outstanding. It provides shareholders a measure of profit for each share of stock they own. Since stocks are quoted in a per share price each day, the EPS is reflected in the same unit terms as the stock price.

Investors focus on the EPS number that crosses the headlines for two main reasons: (1) how much did the company earn this quarter versus the same quarter a year ago which measures growth of profits, and (2) what was the EPS versus what was expected in either analyst estimates or company guidance. Stock prices can react to both comparisons, as well as any outlook the management may provide on its EPS for the next quarter or the full year.

EPS also helps investors determine a quick valuation for a company. The price per share divided by the earnings per share provides a "price to earnings ratio", or PE Ratio. For example, a \$25 per share stock price with earnings per share of \$2.50 for the year would have a 10x PE Ratio. We'll cover more on PE Ratio in next week's commentary.

## 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.

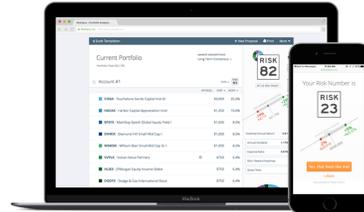
One Moderate investor may feel uncomfortable if their portfolio fell 5% while another may not feel uncomfortable until their portfolio falls more than 10%.

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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